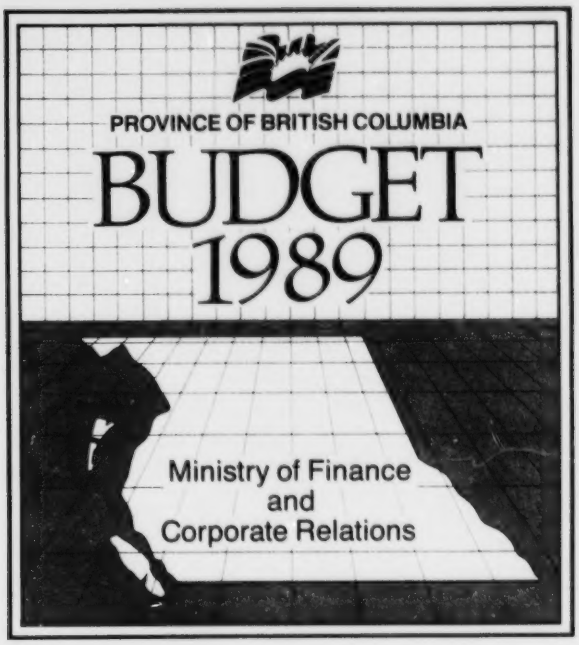
PROVINCE OF BRITISH COLUMBIA

BUDGET 1989

The Honourable Mel Couvelier
Minister of Finance and Corporate Relations



Delivered in the
Legislative Assembly
Thursday, March 30, 1989
by the
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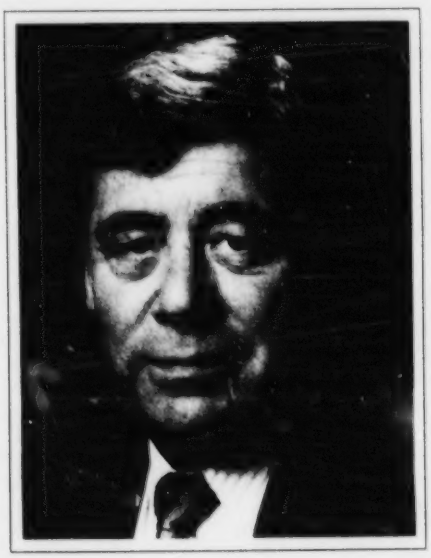
Minister of Finance
and Corporate Relations
M.L.A. for Saanich and the Islands

"The budget is balanced — and the people of British Columbia benefit."



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BUDGET SPEECH 1989

Introduction

Mr. Speaker, I am honoured to present to the people of British Columbia, the third budget of this administration.

This is a budget that represents a commitment both to the broad spectrum of economic and social programs our citizens desire and the sound government management that makes that possible.

This is a fair budget.

Mr. Speaker, this is a balanced budget.

You will see today, that we not only continue to enhance social programs but we also focus on environmental protection and housing.

Mr. Speaker, the budget is balanced – balanced with sensitivity!

We will also be strengthening the economic fabric of the province by providing more resources for the development of our transportation network.

Review of 1988

Let me first review the economic progress made during 1988, that allows for this year's exceptional budget.

You will recall the great uncertainty in the world economy early last year. We wondered whether the large stock market decline of October, 1987 would have a lasting effect on economic activity. I cautiously forecast the British Columbia economy would grow 2.7 per cent. I now report the economy grew by four per cent in 1988.

52,000 more jobs in 1988

In 1988, employment was four per cent higher than in 1987. Honourable members, that's 52,000 more jobs for British Columbians.

Other indicators suggest that growth was broadly based.

- Retail sales were up 8.6 per cent.
- Over 30,000 housing units were started.
- Exports increased by 11 per cent.
- Personal incomes rose by 7.6 per cent.

- Manufacturing shipments increased by 5.9 per cent.
- The value of mineral production rose by 9.7 per cent.
- Foreign visitors to the province increased by 2.4 per cent.
- Pulp and paper production increased by 2.6 per cent.
- New capital investment increased by 18.3 per cent.

Capital spending widespread

More important, over the last two years capital spending has spread to all regions of the province. For example:

- In Delta, an environmentally better paper production plant;
- In Coquitlam, an electronic machine shop;
- In Grand Forks, an improved insulation production facility, and an expanded particle board plant;
- In Armstrong, an expanded food product plant;
- In Hazelton, a new high-technology sawmill;
- In Mission, a value-added wood products plant and a movie production facility;
- In Prince George, an environmentally better chemical plant; and,
- In Oliver, beverage plants.

Projects such as the newsprint mills in Gold River and Mackenzie, the pulp mills in Quesnel and Taylor, the redevelopment of the Highland Valley copper complex, and the Songhees development in Victoria have provided good jobs for our construction workers and will provide long-term employment growth throughout the province.

Many were predicting a disastrous bargaining year in 1988. That did not happen! Today, I congratulate labour and business in the province for their willingness to renew collective agreements last year without excessive wage or concession demands.

Mr. Speaker, it is in the nature of things that the government should be reminded of its shortcomings. We trust, however, that even the most cynical of critics will concede that we are managing the economy effectively.

January 1, 1989 marked the beginning of the historic Canada-United States Free Trade Agreement. We believe that the free trade agreement is a key to British Columbia's business competitiveness in the international marketplace. By providing access to the huge United States market we can refine the

export capability of our home-grown industry.

Government promotes trade, investment and tourism

To take advantage of this agreement, this government has entered into a Pacific Northwest Partnership Agreement with the State of Washington and our Premier recently opened a new office in Southern California to promote our trade, investment and tourism interests with that state.

Reflecting our international commitment, British Columbia was well represented at a number of important world forums during the past year. My colleague, the Minister of International Business and Immigration and I had the pleasure of accompanying the Premier to the World Economic Forum in Davos, Switzerland in January. British Columbia was one of only five jurisdictions invited to make a presentation. Accompanying us to this prestigious event were 18 provincial business people who were instrumental in raising British Columbia's profile among the many world business leaders who attended.

In September, 1988 I had the honour of being part of the delegation which travelled to Seoul, South Korea to represent Greater Victoria when the bid was won for the 1994 Commonwealth Games. Being part of the winning delegation on foreign soil was a proud experience for me as a Canadian and British Columbian.

In October, 1988 British Columbia hosted the renowned Williamsburg Conference. The conference, which was held in Saanich, brought together some of the best and brightest economic and foreign-policy experts from Canada, the United States, the Soviet Union and southeast Asia to discuss issues affecting the Pacific basin. The selection of our province as the site of this event is a recognition that we are considered an important part of the Pacific Rim community.

Further strengthening our relationship with Pacific Rim countries, a new British Columbia trade development office was opened in Singapore last year, complementing the eight existing trade offices.

International Banking Centre now in place

The legislative and administrative framework to establish Vancouver as an International Banking Centre is now substantially in place. To date, nine firms have been registered as international financial businesses under this legislation. Three more are in process. Several others have expressed strong interest in making application.

The House should know that our captive insurance initiative has already registered nine firms. There continues

to be strong interest in the world insurance industry. This increased level of expertise moving to Vancouver further enhances our financial sector.

Mr. Speaker, I am also pleased to tell this House that preliminary discussions are underway between the Vancouver and Hong Kong stock exchanges concerning the prospects of trading linkages. Such a development could see a segment of each market eventually being traded on a number of exchanges around the Pacific Rim.

Pacific Rim connection pays dividends

Our efforts to strengthen current ties with the Pacific Rim have paid handsome dividends. During 1988, the value of our exports to those countries was 45 per cent higher than during 1986.

Young people must learn more about our important trading partners. These future leaders are benefiting from our Pacific Rim education initiatives. About 1,000 students will be studying Japanese or Mandarin in British Columbia schools this year. All students will benefit from the Pacific Rim focus being added to the entire education curriculum.

These are important initiatives, Mr. Speaker, but government can only be a catalyst for change. We can promote the province and provide responsible fiscal management. But the private sector must take the lead, be competitive and aggressively use our advantages if we are to maximize our potential in the world marketplace.

Economic management and business vitality applauded

It is satisfying to note the efforts of this government and the entrepreneurship of our residents are now being recognized throughout Canada and the world. In its most recent report on British Columbia, the Investment Dealers Association of Canada said:

> Positive structural developments introduced by business and government in the past few years will sustain economic growth in British Columbia and avoid repetition of the boom-bust cycles that have characterized the British Columbia economy in the past.

In addition, the recent increase in the province's credit rating by Dominion Bond Rating Service further illustrates how others see us.

Mr. Speaker, it is this type of recognized leadership that has allowed all British Columbians to benefit from this budget. The budget is balanced – by acknowledged good management.

Economic Outlook for 1989

Mr. Speaker, I would now like to outline the economic forecast that underlies our fiscal plan for 1989/90.

Three per cent growth in 1989

I expect that the British Columbia economy will grow three per cent in 1989. This decline from the four per cent growth in 1988 partly reflects a widely expected moderation of growth in the Canadian, American and Japanese economies this year. As well, I expect the rate of increase in capital spending to moderate from its rapid growth of the last two years. Retail sales growth should remain strong, however, underpinned by growth in personal income.

I expect that employment will increase 2.5 per cent, representing 34,000 jobs. Although large numbers of people are migrating to British Columbia because of our strong economy, I anticipate that the unemployment rate will still decline to 9.7 per cent.

That would be the lowest unemployment rate since 1981.

Mr. Speaker, our economic prospects, even in a cooling world economy are bright. Our recovery, however, requires prudence and caution in government actions and those of labour and management. Recent wage settlements in the public school sector are of concern to our government. Those settlements must not of themselves become the floor for future negotiations. At the same time, we are cognizant of the importance of amicably completing important contract negotiations with the health care sector in the months ahead. Our government pledges to treat those in this most vital of service areas, fairly and honourably.

Interest rate increases, inflationary pressures and currency fluctuations are also a source of concern and uncertainty for the economic outlook.

Some governments in Canada are adding to inflationary pressures through unwise deficit spending, particularly where the economy is strong and unemployment rates are low. If this deficit spending was curtailed, inflationary pressures would diminish and the Bank of Canada could lower interest rates.

Honourable members, we are not contributing to this problem.

We were all encouraged to hear the Prime Minister reaffirm that deficit reduction is a primary goal of his government. It is, however, the problem of both the federal government and the provincial governments. We all have to contribute to the solution.

The provincial governments must do their share - but not by accepting funding obligations historically performed by the federal government.

Our government will strongly resist any attempt to merely shift the federal deficit to provincial governments through cuts in transfer payments. Our taxpayers have paid their fair share.

We are responsible Canadians. Our budget is balanced - in the national interest.

The Fiscal Plan

I would now like to review the government's fiscal performance for 1988/89 and our fiscal plan for 1989/90.

Because of unexpectedly strong economic growth, total 1988/89 revenue is now forecast at $12.102 billion, some $538 million more than originally estimated. This revenue windfall will be transferred to the Budget Stabilization Fund. In addition, we have received $302 million from privatization and asset sales during 1988/89. This entire amount will be placed in the Privatization Benefits Fund.

1988/89 deficit less than originally estimated

Final expenditures for 1988/89 are now expected to be slightly under the original budget estimate. After the transfer of excess revenue to the Budget Stabilization Fund, the government will have a 1988/89 General Fund deficit of $375 million, or $20 million less than originally anticipated.

Mr. Speaker, in setting the 1989/90 expenditure plan, I received the generous assistance of a Caucus Committee consisting of Members of the Legislative Assembly from all parts of the province. The committee met 17 times to review budget proposals. I sincerely appreciate the dedication, hard work and valuable contribution of each member.

Using this committee's useful advice on how to focus our expenditure plan, 1989/90 General Fund expenditure has been budgeted at $13.487 billion.

It is our government's view that essential social service expenditures must be increased significantly in the coming year.

Therefore, we are tranferring $500 million from the Budget Stabilization Fund to the General Fund.

Even with this transfer, over $1 billion will remain in the Budget Stabilization Fund at the end of next year, an ample reserve that will enable us to maintain social and other

programs should an economic downturn occur.

Including the transfer from the Budget Stabilization Fund, I expect 1989/90 General Fund revenue to reach $13.487 billion.

THE FISCAL PLAN

($ millions)

	Revised Forecast 1988/89	Budget Estimate 1989/90
General Fund Revenue	11,564	13,487
General Fund Expenditure	11,939	13,487
General Fund Surplus (Deficit)	(375)	0
Budget Stabilization Fund Closing Balance	1,434	1,059
Privatization Benefits Fund Closing Balance	302	322
Government Debt at Year End	4,921	4,671

Honourable members, this budget meets our commitment to taxpayers that budgets be balanced over the business cycle. Deficits initially have a seductive appeal. But soon, the debt begins to grow and interest payments squeeze out expenditures for important services.

When this administration took office in 1986/87, the provincial government's annual deficit was almost $1.2 billion. At that time, I emphasized prudent fiscal management and our government's objectives of eliminating the deficit and reducing the debt.

In 1987/88, we reduced the deficit to under $800 million.

In 1988/89, we will reduce it to $375 million.

In 1989/90, the budget is balanced - as we promised two-and-one-half years ago.

Mr. Speaker, we have achieved our first objective - eliminating the deficit.

And Mr. Speaker, we are making progress on the second objective - reducing the debt.

During 1988/89, we managed to reduce government purpose debt by $96 million and will reduce it by a further $250 million during the upcoming year. This progress has resulted in

tangible benefits. This year's estimates provide for a $69 million reduction in government interest payments.

This significant saving can be used to increase funding for important social services.

Mr. Speaker, the budget is balanced – and the people of British Columbia benefit.

Our government not only believes in prudent fiscal management, but also in enhancing the social and economic well-being of all our residents – as you will see.

It is folly to send young people into the future ill-prepared to meet the challenges they will face. We must have an education system that enables our children to realize their individual potential and win the competitive marathon of the future.

Mr. Speaker, this isn't simply a matter of writing a cheque and hoping to produce favourable results. Numerous studies prove that the level of government spending devoted to education is not the sole determinant of student performance. A strong education system also reflects the efforts of parents, teachers and the students themselves.

Two years ago, this government established a Royal Commission on Education to determine the appropriate direction for education and to make recommendations on ways to improve quality and accountability in the education system.

My colleague, the Minister of Education, recently outlined the details of the government's important initiatives in this critical area. For 1989/90, we shall be providing $44 million in new funding and redirecting $20 million in existing program funding, to start implementing the Commission's recommendations.

This budget includes a $149 million increase for a total of $1.6 billion in provincial contributions to school districts' operating budgets and debt service costs.

Grants to independent schools will also rise by over 17 per cent to $57 million. Independent schools meeting specific criteria will receive per pupil grants equal to 50 per cent of public schools' per pupil operating costs. Funding for special education in independent schools will also increase.

Contributions to teachers' pension funds will rise by 11 per cent to $135 million as a result of increases in the number of teachers and rising salaries.

The Pacific Rim initiatives program will also receive additional funding. Designed to help establish closer cultural, educational and economic links, this program will receive $5.3 million in 1989/90.

Overall, the budget for the Ministry of Education will rise by $253 million in the next fiscal year to over $2.2 billion, a 12.8 per cent increase. The government has also approved a $250 million capital plan for 1989/90 for schools to meet new space requirements and to provide for upgrading and renovations.

Continuing our commitment to post-secondary education, the 1989/90 budget of the Ministry of Advanced Education and Job Training will increase by 13.9 per cent or $121 million.

Provincial contributions to colleges' and institutes' operating budgets will increase by $26 million to $318 million.

University operating grants will increase by $30 million to $371 million. In addition, $20 million will be provided in 1989/90 for the Universities Matching Program which encourages private sector donations.

I believe our student financial assistance programs have given all British Columbians a better opportunity to obtain higher education. In 1989/90, $51 million will assist 33,000 students in obtaining post-secondary education.

Mr. Speaker, this program has been a great success in bringing the students to our universities – now it is time to bring the universities closer to the students.

"Access for All" strategy being implemented

As my colleague, the Minister of Advanced Education and Job Training recently announced, over $35 million will be provided in the coming year to implement the provincial "Access for All" strategy for post-secondary education. Included will be $8 million for the establishment of full university degree programs at Kelowna, Kamloops and Nanaimo. The degree programs will be offered by new partnerships between the colleges and provincial universities.

Other important Access funding includes $19 million for enrolment growth at universities, colleges, institutes and distance education, and $5 million to help increase adult literacy rates, expansion of English-as-second-language training and expanded job preparation training for adult Native people.

We will also be spending over $3 million to improve regional program access as well as expanding programs for remote communities.

Implementing the Access strategy will also require capital expenditures. The $99 million post-secondary education capital budget includes $29 million for this purpose.

Mr. Speaker, we have balanced the budget – and provided new opportunities for our young people.

Health

Ministry of Health budget up over $1 million per day

Honourable members, spending on health care will total $4.3 billion during 1989/90, an increase of $388 million.

Over $178 million of the increase will go to hospital programs, which will receive almost $2.1 billion during 1989/90. The Medical Services Commission, which funds services provided by physicians and other health practitioners, will receive an increase of $79 million to nearly $1.2 billion in the next fiscal year. An additional $18 million will be provided for Pharmacare. Community and family health services will receive over $28 million more in 1989/90 and continuing care services will receive an additional $74 million.

In addition to the increases in operating funding, $155 million in capital funding has been provided to add almost 700 acute, intermediate and extended care beds to our extensive health care system.

This year we are expanding Medical Services Plan premium assistance coverage for low income groups at an additional cost of $16 million. In total, premium assistance is expected to help 540,000 British Columbians.

All should note that the budget for the Ministry of Health is one-third of total provincial government expenditure and the *increase* in funds provided for health in 1989/90 exceeds the *total* budget of 16 of the 21 government ministries.

Mr. Speaker, I want to assure the House that this government is committed to preserving and improving our excellent health care system. Adequate funding is not the issue. Rather, we must refocus on sickness prevention techniques. We are becoming too reliant on a health care system designed to treat sickness rather than staying well.

We are starting to prove that we can contain costs and improve effectiveness.

- The Victoria Health Project, which will have its first full

year of operation in 1989/90, is a good example of the innovation that will reduce cost pressures by integrating and improving the coordination of services to seniors and, at the same time, enhance services through innovations such as senior care centres.

- An important ongoing initiative is the three-year, $137 million alcohol and drug program. It is designed to reduce the immense health and other social costs created by substance abuse through prevention, education, treatment and research.
- Another example is the special support teams of health care professionals. These allow elderly patients to be treated and spend their recovery periods in the comfort and familiar surroundings of their homes thereby freeing acute care facilities for other patients.

An important new initiative in the coming year is the Hospital Innovation Incentive Program. This provides $4 million in seed funding which allows hospitals to make investments that will reduce operating costs. Hospitals will pay back the funds by sharing cost savings with the province.

Mr. Speaker, we have balanced the budget – and we are increasing health care spending by over $1 million per day.

Services for Senior Citizens

During 1989/90, funding for the entire range of government programs directly targeted to seniors will increase by $97 million.

Senior citizens' unique needs recognized

We recognize that senior citizens have unique needs. Therefore, in 1989/90 two new initiatives will be introduced to improve the sensitivity of government programs to those needs.

- A task force will be appointed which will visit communities across the province to discuss issues raised in a soon-to-be-released discussion paper entitled "Towards a Better Age: Strategies for Improving the Lives of Senior British Columbians".
- A Seniors' Advisory Council will be appointed to provide advice to the Minister Responsible for Seniors on matters of importance to seniors. This council will be supported by an Office for Seniors in the Ministry of Health.

More important, this government can assure seniors of stability in government taxation and expenditure policies that allow

them to plan financial and family affairs.

Social Services

Mr. Speaker, thanks to the province's strong economy, I am pleased to report that the income assistance caseload declined during 1988/89 for the third year in a row. I expect a further decline during 1989/90. Nevertheless, the budget of the Ministry of Social Services and Housing will be increased by $165 million, or more than 11 per cent, to over $1.6 billion in 1989/90. Shelter and support allowances paid to income assistance recipients will be increased on July 1, 1989, at a cost of $33 million. As announced by my colleague, the Minister of Social Services and Housing, we will also provide a $37 per month increase in social assistance payments to 13,000 single handicapped recipients, effective April 1, 1989.

Social services spending up more than 11 per cent

The budget for services to families and children has been increased by 12.6 per cent to $140 million to provide for an increase in foster care rates and to provide for the intervention, assessment and treatment of children with severe behavioural and emotional problems. This funding increase includes increased day care subsidies for low-income workers. An additional $20 million will be made available for the care of the physically and mentally handicapped and to continue the phasing out of institutional care.

Mr. Speaker, I turn now to a problem that troubles me deeply.

Despite strong economic growth, British Columbia still has an unacceptably high unemployment rate.

Experts suggest that the current unemployment rate has a "structural" component which is not shrinking as the economy expands. This structural unemployment seems to be caused by significant mismatches between the types of skills offered by job-seekers and the types of skills required by employers.

It seems clear that at least part of the solution to this problem involves retraining of these unemployed individuals and better matching their skills to available jobs.

While there are programs already in place which deal with unemployment and job training, we need to develop a more comprehensive and coordinated attack on structural unemployment. What is required is a cooperative strategy to deal with the problem. As announced in the Speech from the Throne, developing such a strategy will be the priority of a Task Force of Members of the Legislative Assembly, business and labour.

Government, business and labour Task Force to deal with structural unemployment

Justice

Justice Reform Committee recommendations being implemented

Mr. Speaker, it is essential that British Columbians have a justice system they can count on, understand and access. We are addressing the recommendations of the Justice Reform Committee. Measures to be implemented include a new *Small Claims Act*, streamlined trial procedures and drafting of legislation and forms in plain language.

An important part of the justice system is access to legal services. In 1989/90, funds for legal aid services will increase by more than 20 per cent.

We will be providing additional funds for Crown counsel offices to ensure that the needs of victims and witnesses are met during the justice process. The Attorney General will also ensure that the victims of crime are compensated for costs by perpetrators of the illegal acts.

This budget provides $4 million for full implementation of the Family Maintenance Enforcement Program. This program helps those with maintenance orders obtain the support to which they are legally entitled.

During 1989/90, the Ministry of Attorney General's capital budget includes $16 million for upgrading, expansion and replacement of court facilities throughout the province. Approximately $80 million will be spent by the Ministry of Solicitor General on three new correctional facilities. This will complete the government's commitment to close the Oakalla prison by the end of next year.

Economic Development

I have already mentioned some of the international activities undertaken by the Premier and members of Cabinet over the past year. Our economic development efforts in the coming year will continue to focus on trade development and the attraction of international investors.

Economic development measures have a global focus

Legislative authority will be sought to establish the British Columbia Trade Development Corporation. This new corporation will help increase goods and service exports from the province. An integral part of the Trade Development Corporation's activities will be to help firms obtain export financing and to help small and medium-sized business enter foreign markets for the first time.

Funding will also be provided to expand the province's trade

offices in Ottawa and San Francisco. These offices will provide advice to British Columbia business seeking federal government contracts, help our local high-technology companies doing business in the Silicon Valley and assist firms exploring free trade opportunities south of the border.

Mr. Speaker, the Canada-U.S. Free Trade Agreement and recent rulings against Canadian provincial liquor board practices under the General Agreement on Tariffs and Trade will necessitate substantial adjustments by producers in some of British Columbia's industries. The government is complying with the provisions of the Free Trade Agreement and the GATT which require that we reduce markup differentials between British Columbia products and those from other countries.

I am pleased to see steps being taken by our wine industry to enhance the quality of our local wines through adoption of appellation and quality standards. However, I recognize that some grape growers will still need help in adjusting to the new rules. Accordingly, this budget provides $12 million in funding to complete the first phase of a $28 million federal-provincial grape and wine sector adjustment program.

Economic development measures have a regional focus

Mr. Speaker, a number of other important economic development initiatives by various ministries will receive new or enhanced funding in 1989/90. This funding is designed to assist economic development in all regions of the province.

- The Ministry of Agriculture and Fisheries will receive $6.7 million for a major expansion of agri-food industry development programs cost-shared with the federal government.
- Together with the Ministry of Energy, Mines and Petroleum Resources, the Ministry of Regional Development will establish a $5 million loan program for the building of roads to access mineral resources.
- The Ministry of Forests will continue to expand opportunities for small business firms to establish themselves in the forest industry by increasing the volume of wood available through competitive timber sales under the Small Business Forest Enterprise Program. This program encourages the production of higher-valued, solid-wood products.
- The Ministry of Regional Development will receive $3.9 million in new funding for expansion of community-based initiatives such as the Community Organizations for

Economic Development Program, which assists in local economic development.

- The Ministry of Regional Development will be expanding its Regional Seed Capital Program. Up to $48 million in loan guarantees will be provided during 1989/90 compared to the previous year's authorization of $16 million.

Mr. Speaker, there is a need for business, labour and government to cooperate in all aspects of economic development, including the search for new markets and new ways of producing products. Often the spur to cooperative innovation is common economic interest.

Therefore, I am pleased to announce that over $1.5 million will be authorized for a new Employee Equity Program which will provide incentives for employees to invest in their firms or in worker-sponsored venture capital funds. My colleague, the Minister of Regional Development, will be announcing the details of this program shortly.

Mr. Speaker, we have balanced the budget and we are further diversifying our economy.

Privatization

Economy benefits from privatization

Privatization has been a major success. Not only has it generated over $300 million for the Privatization Benefits Fund, but it has also provided opportunities for expansion. A good example is the sale of the assets of the British Columbia Steamship Company, a Crown corporation which has provided the government with a legacy of losses in its years of operating the *Princess Marguerite* and, more recently, the *Vancouver Island Princess*. Upon the sale of these vessels to the private sector, the purchaser announced an expansion of service between Victoria, Seattle and Vancouver and the introduction of a new vessel into service. The new owner will also be undertaking significant refit work in Victoria.

Other successful privatization examples that will result in new jobs include the sale of the Mainland and Victoria gas distribution networks, which with the new pipeline, opens up all of the Sunshine Coast and southern Vancouver Island to a new clean source of energy.

Over the next year, we will continue to examine other facets of the government's activities to identify functions more appropriately located in the private sector.

Mr. Speaker, British Columbians want a strong economy and employment opportunities, but not at the expense of their environment. That is why we set up the Task Force on the Environment and the Economy in January, 1989. We believe that sustainable development is possible and look forward to receiving the report of the Task Force at the end of May.

We must think globally and act locally. There is a growing recognition that developing solutions to environmental problems will require cooperation among all jurisdictions.

The importance of cooperation and coordination was illustrated by the response to the oil spill off Washington State which soiled our coastline. Mr. Speaker, this incident made clear that environmental efforts of various jurisdictions need to be better coordinated. To this end, a Task Force on Oil Spills, co-chaired by British Columbia and Washington State, has been established.

Environmental protection is everyone's responsibility

Mr. Speaker, cooperation among jurisdictions to deal with environmental disasters is one thing, but we believe that environmental protection is everyone's responsibility. Environmental protection requires a dedicated, cooperative approach by all levels of government, industry, business and individuals. This budget applies that principle.

Mr. Speaker, this budget provides an almost 90 per cent increase to nearly $200 million for environment programs. Included is new funding of $28 million from the Lottery Fund.

The Vancouver Island pipeline will provide a clean and efficient source of energy for homes and business on Vancouver Island, Howe Sound, the Sechelt Peninsula and Powell River. The several pulp mills along the pipeline's route will be provided with an alternative to heavy fuel oil. Substitution of natural gas for fuel oil will reduce acid rain and cut oil barge traffic, reducing the risk of oil spills in Georgia Strait.

I expect the economic impact of this project to be significant. My colleague, the Minister of Energy, Mines and Petroleum Resources, estimates that the construction of the pipeline will provide 700 person-years of employment.

One of the tools we have to protect the environment is government regulation and monitoring of industry. The government has recently taken a number of important steps in this regard.

- My colleague, the Minister of the Environment, has announced that we will be restricting the use of

chlorofluorocarbons which are depleting the earth's ozone layer and that industry's use of high sulphur content fuel, a major contributer to acid rain, will no longer be allowed.

- My colleague will also be providing an additional $7.4 million for monitoring of special wastes and toxic chemicals and enforcement of existing environmental legislation.
- The Ministry of Energy, Mines and Petroleum Resources will be strengthening its mines inspection function to ensure that mines in British Columbia are developed and operated in a manner that is sensitive to environmental concerns.

Mr. Speaker, our balanced and cooperative approach to the environment requires incentives for industry, local governments and individuals to work together. This budget includes funding for the following initiatives.

Environmental clean-up and preservation are focus of government policy

- The Ministry of Energy, Mines and Petroleum Resources will be spending $3.1 million this coming year on a new program to produce energy from waste products, including municipal garbage, wood waste and possibly coal wastes. The province will be seeking matching federal funds for this initiative.
- The province has already announced major financial support, under the GO BC program, for recycling initiatives in Nanaimo and Surrey. We will also be assisting other municipalities and regional districts wishing to establish recycling programs.
- The government will increase funding available to municipalities for water and sewer infrastructure under the Revenue Sharing Fund and dedicate money from the Lottery Fund to address other local waste management priorities.
- Establishment of Centres of Excellence in Environmental Research and Engineering in cooperation with the federal government will be funded with grants from the Lottery Fund.
- The government will expand and upgrade toxic waste storage facilities and work towards establishment of a provincial toxic waste disposal plant.

The initiatives I have announced so far are targeted at environmental clean-up. Mr. Speaker, the government is also committed to preserving our environment.

- The government will create one of the largest urban parks

in the world from the University Endowment Lands on Point Grey, a legacy for future generations to enjoy.

- There will also be a major increase in spending to acquire and enhance fish and wildlife habitat and funding made available to establish a new provincial fish hatchery.
- Another important initiative is the new Environmental Youth Services Program which will be administered by the Minister of the Environment. This program will employ young people to perform non-hazardous work such as enhancing fish and wildlife habitats and improving facilities and outdoor recreational opportunities in provincial parks.

Forest renewal accelerated

Mr. Speaker, polluters should pay for the damage they cause. This government intends to significantly raise the fines it levies for polluting the environment.

Forestry continues to be important for the environment and economy of the province and it is essential that we renew this precious resource. Since 1981, one billion seedlings have been planted, more than in the previous 50 years. The government and the forest industry expect to accelerate plantings, and over one billion seedlings will be planted over the next several years. Reflecting our commitment to the renewal of the forest resource, Ministry of Forests expenditures on silviculture will increase to over $250 million in 1989/90.

Mr. Speaker, the budget is balanced — as we progress towards totally sustainable development.

Transportation

Transportation network cornerstone of economic development

An important government role in the economic development of British Columbia has been the building of a transportation network. In a province as geographically and climatically diverse as ours, it has been an expensive but vital task. As members will recall, the government recently announced a unique transportation planning process which we have called "Freedom to Move". Flowing from this announcement, local committees are at work in each of the eight development regions collecting ideas from the public and community organizations and developing regional plans for improving the transportation system over the next decade.

In the meantime, there is a great deal of work that can begin. As the Premier announced in January, we are accelerating the completion date of the Okanagan Connector to the fall of 1990. Originally, it was to have been completed in the fall of 1991.

The Vancouver Island Highway is not forgotten. This project will provide better transportation linkages among Vancouver Island communities for both tourism and economic development. Over $30 million will be spent next year on this project.

Other projects will be announced shortly by my colleague, the Minister of Transportation and Highways. Overall, highways construction capital funding in 1989/90 will be more than twice the 1988/89 level.

Although new construction is required in some areas, it is important and cost effective to maintain and enhance our existing highways. Accordingly, this year we will be funding a 50 percent increase in the Ministry of Transportation and Highways budget for highway rehabilitation.

Highways stimulate regional development

The activities I have just outlined and a number of smaller highway projects will not only provide a better transportation system, but they will also stimulate employment opportunities and give a boost to local economies in many regions of the province.

Mr. Speaker, the significance of these commitments to areas throughout British Columbia can be seen in the fact that we are providing over $1 billion for the Ministry of Transportation and Highways in this budget.

My colleague has also examined the British Columbia ferry fleet to ensure it is responsive to the growing needs of local service and tourism.

Therefore, the government has approved a 10-year, $550 million capital maintenance and expansion program for the British Columbia Ferry Corporation. This program includes:

Ferry system responds to needs of residents and tourists

- construction of two super ferries and two smaller ferries by 1994 at an estimated cost of $372 million;
- improvements of all major terminal facilities; and,
- reorganization of the southern Gulf Islands ferry service.

In order to finance this program, our government will continue to provide the annual operating subsidy while allowing the British Columbia Ferry Corporation to raise its fares in line with inflation.

The British Columbia Ferry Corporation estimates that the five-year shipbuilding phase of the program alone will generate almost 3,900 person-years of employment and many more benefits from purchases of materials and equipment.

Local Government

Mr. Speaker, as a former mayor of Saanich, I am well aware of the importance of local governments in this province. Therefore, I am very proud that our government is able to share its buoyant tax revenues with municipal governments in all regions of the province. This year, we will be transferring $286 million to municipalities under the Municipal Revenue Sharing program. For the first time, the Municipal Revenue Sharing program will transfer funds to assist with the costs of policing and community health services in those municipalities which, until now, have covered the cost of these services themselves. In addition to the lottery funding for environmental projects which I announced earlier, the Municipal Revenue Sharing transfer includes $35 million in conditional grants for water and sewer projects, a $20 million increase.

$50 million in GO BC projects during 1989/90

At the Union of British Columbia Municipalities annual meeting at Whistler, the Premier introduced the three-year, $162 million GO BC program. Funding comes from provincial lottery revenues and will provide up to one-third of the cost of worthwhile community "growth and opportunity" capital projects, up to a project maximum of $1 million.

During 1989/90, $50 million will be set aside for GO BC projects ranging from a child development centre in the Comox Valley, to a heritage museum in Burnaby, to a swimming pool in Castlegar, to instructional space at the Art Gallery of Greater Victoria.

Mr. Speaker, the Royal British Columbia Museum here in Victoria will receive $1 million in 1989/90 to upgrade its physical plant and begin computerizing its catalogue system.

Revenue Measures

Mr. Speaker, we have balanced the budget — and we have done so without tax increases — we are managing the public's money with care.

The strong growth of the provincial economy, combined with access to low-cost power over the next decade and also revenues from export sales, will result in substantial increases in the earnings of British Columbia Hydro and Power Authority. As a result, the corporation will return to its shareholder, the provincial government, an estimated $102

million of surplus net income in 1989/90. British Columbia Hydro will continue to pay a dividend to the province in future years related to its surplus net income. Further, British Columbia Hydro is expected to limit rate increases to less than inflation.

Financial Sector Regulation

Financial institutions legislation streamlined

Mr. Speaker, I am pleased that extensive consultation between the financial services industry and the government will result in the tabling of a major piece of legislation in this legislative session concerning the regulation of financial institutions. The *Financial Institutions Act* will provide an up-to-date regulatory framework for credit unions, trust companies and insurance companies operating in British Columbia.

Another significant piece of legislation I intend to introduce this session is the *Personal Property Security Act*. This legislation will provide for the establishment of a consolidated personal property security registry in British Columbia.

This is an important initiative which will provide a comprehensive and modern regulatory structure for secured loan and credit transactions in the province. It will remove some existing impediments to investment and, in a general way, enhance the environment for business activity in British Columbia. It will also allow us to provide better and faster service to the public at a lower average cost to the taxpayer.

Provincial Housing Action Plan

Action Plan addresses affordability, property taxes and rental supply

I am now pleased to provide details of a set of major initiatives combined in a Provincial Housing Action Plan — a plan which addresses the issues of the affordability of housing, property taxes and the supply of rental accommodation.

Our buoyant and growing economy has resulted in significant in-migration to the province, with the Lower Mainland and Victoria areas being the primary destinations. This has resulted in low vacancy rates for rental accommodation, rising rents and generally higher property values. The free market's neighbourhood preferences have resulted in considerable tax shifts within jurisdictions which are also of concern.

Major government intervention to reverse market-determined trends has been shown to be harmful whenever it has been attempted in the past. However, there are some actions governments can take. We can relieve the hardship caused by

rapid changes in the housing market, we can assist those unable to afford market priced housing, and most important, we can help increase the supply of housing — we will do all three.

This government will be spending almost $900 million on housing-related and mobile home programs in the coming fiscal year.

In order to facilitate the implementation of the Provincial Housing Action Plan, we propose to present legislation authorizing the formation of a new Crown corporation, the British Columbia Housing Corporation. The objective of this corporation will be to increase private sector and government cooperation in the housing market and to assume the functions of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.

Home Owner Grant increased

Most home owners are facing school property tax increases this year that are larger than usual, partly as a result of higher than anticipated wage increases. To reduce the impact of these increases we are increasing the basic Home Owner Grant for the 1989 taxation year from $380 to $430. For seniors, the handicapped and others entitled to the supplementary grant, the Home Owner Grant for the 1989 taxation year will rise from $630 to $700.

Over 640,000 home owners are expected to receive this increased grant which should ensure that, on a provincial average, property taxes will rise by less than the rate of inflation. Indeed, many home owners will experience a decline in their net property taxes.

Of particular benefit to seniors is an expansion of our Land Tax Deferment Program. The eligible age for participation in this program will be lowered from 65 years to 60 years, effective January 1, 1989. Those 60 years and older and the handicapped can have their annual property taxes paid by the provincial government, if they so choose. The deferred taxes and interest, at a lower-than-market rate, are registered as a charge against the property, to be recovered when the property is eventually sold or transferred.

We will also provide start-up grants for non-profit societies undertaking to construct rental housing for seniors. Experience has shown that a small amount of assistance to those societies in the initial phase can be extremely useful.

Our Provincial Housing Action Plan provides assistance to home buyers.

Today, I am announcing property purchase tax relief which will apply to buyers of modestly-priced housing for whom a registered mortgage or other financing exceeds 75 per cent of the purchase price of the home. Relief will be on a sliding scale to allow for greater tax reductions for those with low down payments. For example, a one-year resident buying a $100,000 home with a 10 per cent down payment will receive property purchase tax relief of $600, equal to 60 per cent of the tax otherwise payable. Relief will be limited to property purchases not exceeding $150,000.

Property purchase tax relief

This relief measure will be effective for property transfers registered after today and can be claimed for a period of one year following registration of the transfer. This measure is expected to reduce property purchase tax revenue by almost $13 million next year and will benefit an estimated 25,000 home buyers — not just the first-time buyer.

Increased assistance will also be provided home buyers by changes to the British Columbia Second Mortgage Program. The eligible house price limit will be raised from $85,000 to $100,000 and the maximum assistance available will increase from $10,000 to $12,000. To facilitate delivery of the program by the private sector, second mortgages will be replaced by loan guarantees. The guarantees will be attached to first mortgages issued by financial institutions.

Our Provincial Housing Action Plan considers renters.

The Ministry of Social Services and Housing will add over 1,800 units to the over 50,000 social housing units in the province. These units will be cost-shared with the federal government. My colleague, the Minister of Social Services and Housing, will also request of his federal counterpart an increase in the number of housing units to be cost-shared.

As I announced earlier, those on income assistance will benefit from an increase in the shelter allowance this year. Eligible rent levels under the Shelter Aid for Elderly Renters Program will also be increased which will provide assistance to an additional 5,700 seniors and increased support to those already in the program. This improvement is expected to more than double the cost of SAFER to almost $15 million.

Assistance provided to renters

To assist other low income British Columbians who rent accommodation, the government proposes to introduce a Renter's Tax Reduction this year that will be available to all renters who pay provincial income tax. The tax reduction will amount to $200 for every person in a family and will be phased

out as income rises. For a family of four with an income of $20,000, the tax reduction will normally amount to $500. When the federal government agrees to administer this measure, British Columbia residents will be able to claim the tax reduction when they file their 1989 income tax returns early next year. Because this measure is intended to reduce hardship during this period of rising rents, it will be phased out over the subsequent four years.

The supply of rental housing, especially in Greater Vancouver and Greater Victoria, is a matter for concern. The essential ingredient to increasing the rental housing supply is cooperation among the players involved. Municipal governments have a major role to play through their regulation of new developments. Developers must play a role by building affordable housing and the provincial government can play a role by providing land suitable for development and some financial assistance.

Municipalities and the federal government are also major land owners in Greater Vancouver and Greater Victoria. We shall ask them to participate by providing land for rental housing. Accordingly, the provincial government is appointing a task force for this purpose with a wide mandate to pursue cooperation among all the potential participants.

Rental housing supply stimulated

For our part, we have already identified provincial government and Crown-owned land in Greater Victoria and Greater Vancouver sufficient to provide many new units of rental housing over the next two or three years and I challenge the municipal governments and developers to work with us in ensuring those units are built. Our target is an additional 4,000 units of rental housing, to be started over the next 18 months.

Our proposal is to sell or lease this land when zoned, on an open tender basis, to developers who agree to build rental housing. I also propose to exclude the sale of this land from the property purchase tax.

Those municipalities who participate in this program by providing the appropriate density requirements that facilitate an early start on this initiative will share in up to one-third of the proceeds from the sale or lease of Crown land and other provincial government land used for these developments.

We are also introducing a Municipal Incentive Grant to encourage municipalities to approve rental housing developments. The amount of the grant, which will be available to all municipalities, will vary with the extent of

rezoning required, but is expected to be up to $2,500 per unit.

My colleagues, the Minister of Social Services and Housing, the Minister of Municipal Affairs, Recreation and Culture and the Minister Responsible for Crown Lands, have the major responsibilities for this initiative and will be announcing details in the near future.

Rising interest rates have also caused developers' costs to increase. To reduce this added burden the government will provide interest subsidies to developers who are willing to make investments in affordable rental housing with suitable commitments on the level of rents. The proposed Crown corporation will examine the feasibility of establishing a Rental Housing Development Fund for this purpose. The corporation will also work with my colleague, the Minister of International Business and Immigration, to explore the possibility of attracting investments by new Canadians in rental housing.

Mr. Speaker, we have balanced the budget — and brought forward the most sweeping and innovative housing program ever presented to this House.

Conclusion

Mr. Speaker, I have had the privilege of presenting three budgets to this Legislative Assembly and I believe that each has served as a building block on the other. In these three budgets, this government has delivered substantially more funding for a range of services required by British Columbians.

Over the three years:

- We have increased Ministry of Health funding by almost $1 billion;
- We have increased primary, secondary and post-secondary education funding by over $700 million; and,
- We have increased Ministry of Social Services and Housing funding by over $250 million, even though the number of people in need of income assistance has declined.

In the last three years, we have delivered economic development policies which have generated significant economic growth for the province. That growth has, in turn, helped fund our social programs. Natural resource levies paid by business have increased from approximately $650 million in 1986/87 to over $1.2 billion in 1989/90. Corporation income tax payments have risen from less than $300 million to almost $750 million during the same period despite a rate reduction.

In this budget, we have addressed the continuing need for environmental protection and housing.

In this budget, we are providing more resources to equip our children with education and skills for tomorrow.

In this budget, we have significantly increased our funding for highways and our contributions to municipalities.

In this budget, we have provided more support than ever for our health care system.

Our taxes remain fair compared to other provinces with our personal income tax rates and social service tax rate being the second lowest in the country.

And, Mr. Speaker, starting from a deficit of $1.2 billion in 1986/87, we have delivered the first balanced budget in a decade.

Mr. Speaker, our economy is strong, our budget is balanced and we have the fiscal resources to weather any squalls. I trust every British Columbian is as proud as I, this day.

1989 BUDGET APPENDICES

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Overview

For the second consecutive year, the British Columbia economy performed much better than initially anticipated. As a result, provincial government revenue is expected to reach $12,102 million, up $538 million from the original budget estimate. This entire revenue surplus will be transferred to the Budget Stabilization Fund (see Table A1).

General Fund expenditure for 1988/89 is now forecast at $11,939 million, $20 million below the original budget estimate.

After the revenue transfer to the Budget Stabilization Fund, the General Fund deficit is expected to be $375 million, $20 million below budget and less than half the 1987/88 General Fund deficit.

During 1988/89, the Budget Stabilization Fund is expected to receive $538 million in surplus revenue from the General Fund, $74 million in interest revenue and $79 million in lottery funds. The balance of the Fund is, therefore, expected to total $1,434 million at March 31, 1989.

Privatization proceeds during 1988/89 are expected to yield $302 million in revenue for the Privatization Benefits Fund.

Due to the favourable fiscal performance, the provincial government increased its cash and temporary investments by $301 million and was able to repay debt during 1988/89 (see Table A2). Gross borrowing of $208 million was more than offset by redemptions, increases in sinking fund balances and changes in unamortized discount totalling $304 million. As a result, government purpose debt outstanding declined by $96 million.

Revenue

Total 1988/89 revenue, now forecast at $12,102 million, is up 4.7 per cent from the original budget estimate (see Table A3).

Taxation revenue of $6,993 million is up $403 million or 6.1 per cent from the budget estimate, as a result of higher-than-expected collections from personal income tax, corporation income tax, social service tax and property purchase tax, partially offset by lower-than-expected collections from fuel taxes.

Natural resource revenue of $1,223 million is $13 million above the original budget estimate. Lower-than-expected forests revenue is expected to be more than offset by higher-than-expected revenue from petroleum, natural gas and other minerals.

Other revenue of $1,325 million is expected to be $117 million or 9.7 per cent above budget. Most of the increase is the result of higher-than-expected lottery ticket sales, Medical Services Plan premium revenue and interest income.

Contributions from government enterprises of $451 million are expected to be $3 million above budget while contributions from the federal government, now forecast at $2,110 million, are $2 million above the original estimate.

General Fund Expenditure

General Fund expenditure for 1988/89, now forecast at $11,939 million is $20 million below the original budget estimate. Expenditures are shown in Table A4.

Ministry of Health expenditure of $3,938 million is $17 million above budget mainly as a result of higher-than-expected spending on continuing care and pharmacare.

Ministry of Education expenditure of $1,985 million is $13 million above budget primarily for higher-than-expected contributions to school districts.

Ministry of Social Services and Housing expenditure of $1,465 million is $20 million above budget as a result of increased spending on income assistance.

Ministry of Advanced Education and Job Training expenditure of $924 million is expected to be $51 million above budget because of increased contributions to universities, colleges and institutes.

Ministry of Transportation and Highways spending of $667 million is expected to be $25 million below budget due to less-than-expected requirements for highway construction and capital maintenance.

Public debt interest of $614 million is expected to be $27 million below budget due to lower-than-expected borrowing requirements.

Ministry of Forests expenditure of $494 million is expected to be $41 million below budget due to reduced requirements for ministry operations and forest fire suppression.

Operating Transactions
General Fund and Special Funds

	Estimate 1988/89[1]	Revised Forecast 1988/89[1]	Estimate 1989/90
		($ millions)	
General Fund:			
Total Revenue	11,564.0	12,102.0	12,987.0
Transfer (to) from Budget Stabilization Fund	—	(538.0)	500.0
General Fund Revenue	11,564.0	11,564.0	13,487.0
Operating Expenditure	11,835.0	11,786.0	13,362.0
Interest Payments to Budget Stabilization Fund	45.0	74.0	125.0
Lottery funds Transferred to Budget Stabilization Fund	79.0	79.0	—
General Fund Expenditure	11,959.0	11,939.0	13,487.0
General Fund Surplus (Deficit)	(395.0)	(375.0)	—
Budget Stabilization Fund:			
Opening Balance	450.0	742.9	1,433.9
Transfer (to) from General Fund	—	538.0	(500.0)
Interest Earnings	45.0	74.0	125.0
Lottery funds Transferred from General Fund	79.0	79.0	—
Closing Balance	574.0	1,433.9	1,058.9
Privatization Benefits Fund:			
Opening Balance	—	—	302.0
Privatization Proceeds	—	302.0	20.0
Closing Balance	—	302.0	322.0

[1] Restated to conform to the *1989/90 Estimates*.

Total revenue for 1989/90 is estimated at $12,987 million, an increase of 7.3 per cent from the revised forecast for 1988/89. During 1989/90, a transfer of $500 million will be made from the Budget Stabilization Fund to the General Fund. General Fund revenue in 1989/90 will, therefore, total $13,487 million.

General Fund expenditure for 1989/90 is estimated at $13,487 million, an increase of 13 per cent from the revised forecast for 1988/89. Due to the matching of revenue and expenditure, the General Fund will be in balance during 1989/90.

Interest income of the Budget Stabilization Fund in 1989/90 is estimated at $125 million. After deducting the $500 million transfer to the General Fund, the Budget Stabilization Fund balance is estimated to total $1,059 million at year-end. Privatization proceeds from initiatives currently underway are expected to yield $20 million in revenue for the Privatization Benefits Fund during 1989/90. As a result, the balance of the Privatization Benefits Fund is estimated at $322 million at March 31, 1990.

Government purpose debt is again expected to decline during 1989/90. Gross borrowing for government purposes of $163 million will be more than offset by debt retirements, resulting in a $250 million decline in net debt outstanding by year-end.

The Financing Plan
General Fund and Special Funds

	Estimate 1988/89	Revised Forecast 1988/89	Estimate 1989/90
	($ millions)		
Financial Requirements:			
General Fund Surplus (Deficit)	(395.0)	(375.0)	—
Budget Stabilization Fund Increase (Decrease)	124.0	691.0	(375.0)
Privatization Benefits Fund Increase (Decrease)	—	302.0	20.0
Net Receipts (Disbursements) from Financing and Working Capital Transactions	43.0	(221.0)	301.0
Total Financial Requirements	(228.0)	397.0	(54.0)
Financial Sources:			
Gross Borrowing for Government Purposes	419.6	207.9	163.0
Less Retirement Provisions	229.0	303.9	413.0
Net Borrowing	190.6	(96.0)	(250.0)
Decrease (Increase) in Cash and Temporary Investments	37.4	(301.0)	304.0
Total Financial Sources	228.0	(397.0)	54.0

Taxation revenue, the most important source of provincial government revenue, is expected to total $7,633 million in 1989/90, 9.2 per cent higher than the 1988/89 revised forecast. Personal income tax revenue is expected to increase by 7.5 per cent as a result of further increases in personal income. Corporation income tax revenue is expected to increase by 17.5 per cent due to increases in corporate profits and because of an expected adjustment payment from the federal government pertaining to tax collections in previous years.

Social service tax revenue is estimated to increase by 9.1 per cent due to growth in consumer spending and capital investment. Fuel tax revenue is expected to increase by 13 per cent as a result of increased consumption and firmer fuel prices. Property purchase tax revenue is expected to increase by 5.5 per cent with the budget measure to provide assistance for eligible home purchasers reducing revenue by almost $13 million.

Natural resource revenue, estimated at $1,209 million during 1989/90, is expected to decline slightly from the previous year. Small increases in forests and minerals revenue are expected to be more than offset by reduced revenues from petroleum, natural gas and water rentals.

Other revenue is expected to increase by 7.6 per cent to an estimated $1,426 million. Population increases combined with increased Medical Services Plan premiums, partially offset by increased premium assistance, are expected to increase Medical Services Plan revenue by $32 million. Real estate earnings of the Crown Land and Social Housing Special Accounts are expected to increase by $17 million. Small increases in lottery revenue, revenue from motor vehicle and other fees and licenses are also expected due to population growth and increased economic activity.

Contributions from government enterprises are expected to increase by 20.2 per cent to an estimated $542 million during 1989/90. A $102 million dividend from British Columbia Hydro and Power Authority accounts for the increase.

Contributions from the federal government estimated at $2,177 million are expected to increase 3.2 per cent during 1989/90. Increased contributions from Established Programs Financing and the Canada Assistance Plan are expected to be partially offset by reductions in other federal government transfers.

General Fund expenditure for 1989/90 is estimated at $13,487 million, an increase of $1,528 million or 12.8 per cent from the 1988/89 estimates.

Ministry of Health spending is estimated to increase by $388 million to $4,309 million. Significant expenditure increases include $178 million in increased hospital programs expenditure, $79 million for increased Medical Service Plan expenditure and $74 million in additional expenditure for continuing care services.

Ministry of Education expenditure, estimated at $2,224 million, shows an increase of $253 million from the 1988/89 estimates. Operating and debt service contributions to school districts are estimated to increase by $149 million. In addition, home owner grant payments will increase by $44 million, primarily as a result of the increase in the level of grants paid to homeowners. Independent schools will receive an additional $8 million during 1989/90.

Revenue by Source

	Estimate 1988/89[1]	Revised Forecast 1988/89	Estimate 1989/90	Increase (Decrease)[2]
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	2,784.0	2,990.0	3,215.0	7.5
Corporation income	557.0	633.0	744.0	17.5
Social service	1,657.0	1,698.0	1,852.0	9.1
Fuel	508.0	455.0	514.0	13.0
Property — business (school purpose)	500.0	510.0	535.0	4.9
Other	584.0	707.0	773.0	9.3
	6,590.0	6,993.0	7,633.0	9.2
Natural Resource Revenue:				
Petroleum and natural gas	205.0	243.0	217.0	(10.7)
Minerals	54.0	74.0	84.0	13.5
Forests	689.0	639.0	646.0	1.1
Water	250.0	254.0	247.0	(2.8)
Other	12.0	13.0	15.0	15.4
	1,210.0	1,223.0	1,209.0	(1.1)
Other Revenue:				
Fees and licences	1,077.0	1,132.0	1,219.0	7.7
Interest	53.0	113.0	116.0	2.7
Miscellaneous	78.0	80.0	91.0	13.8
	1,208.0	1,325.0	1,426.0	7.6
Contributions from Government Enterprises:				
Liquor Distribution Branch	425.0	419.0	413.0	(1.4)
British Columbia Hydro and Power Authority	—	—	102.0	—
Other	23.0	32.0	27.0	(15.6)
	448.0	451.0	542.0	20.2
Contributions from the Federal Government:				
Established Programs Financing	1,297.0	1,247.0	1,303.0	4.5
Canada Assistance Plan	623.0	660.0	690.0	4.5
Other	188.0	203.0	184.0	(9.4)
	2,108.0	2,110.0	2,177.0	3.2
Total Revenue	11,564.0	12,102.0	12,987.0	7.3
Transfer (to) from Budget Stabilization Fund	—	(538.0)	500.0	—
TOTAL GENERAL FUND REVENUE	11,564.0	11,564.0	13,487.0	16.6

[1] Restated to conform to the *1989/90 Estimates*.
[2] Percentage change between the 1988/89 revised forecast and 1989/90 estimate.

Expenditure by Ministry[1]

	Estimate 1988/89	Revised Forecast 1988/89	Estimate 1989/90	Increase (Decrease)[2]
	($ millions)			(per cent)
Legislation	16.6	16.6	17.5	5.4
Auditor General	5.2	5.2	5.7	9.6
Ombudsman	2.7	2.7	2.8	3.7
Office of the Premier and Executive Council Operations	3.4	3.4	3.5	2.9
Advanced Education and Job Training	873.5	924.4	994.8	13.9
Agriculture and Fisheries	91.0	95.4	104.5	14.8
Attorney General	199.1	206.4	226.4	13.7
Education	1,971.7	1,984.9	2,224.3	12.8
Energy, Mines and Petroleum Resources	30.7	30.3	36.4	18.6
Finance and Corporate Relations	72.3	87.6	75.2	4.0
Forests	534.7	493.9	557.9	4.3
Government Management Services	57.9	57.5	44.9	(22.5)
Health	3,920.7	3,937.9	4,309.1	9.9
International Business and Immigration	29.4	28.4	32.9	11.9
Labour and Consumer Services	72.7	62.7	77.4	6.5
Municipal Affairs, Recreation and Culture	472.0	467.8	535.6	13.5
Regional Development and Ministry of State for Mainland/Southwest	57.4	62.9	69.4	20.9
Ministry of State for Thompson-Okanagan and Kootenay, Responsible for Crown Lands	39.8	38.2	44.6	12.1
Ministry of State for Cariboo, Responsible for Environment	90.2	87.2	121.6	34.8
Ministry of State for Nechako and Northeast, Responsible for Native Affairs	4.2	8.9	6.5	54.8
Ministry of State for Vancouver Island/Coast and North Coast, Responsible for Parks	35.0	34.0	36.5	4.3
Social Services and Housing	1,444.9	1,464.7	1,609.7	11.4
Solicitor General	297.9	304.0	333.1	11.8
Tourism and Provincial Secretary	34.0	33.1	39.2	15.3
Transportation and Highways	691.6	666.6	1,016.2	46.9
Other Appropriations:				
Management of Public Funds and Debt[3]	640.4	613.6	651.4	1.7
Contingencies	50.0	28.3	50.0	—
New Programs	29.7	19.3	45.0	51.5
Compensation Stabilization Program	0.3	0.1	—	—
Lottery Fund Special Account[4]	159.5	173.0	182.0	14.1
South Moresby Implementation	30.5	—	32.9	7.9
TOTAL GENERAL FUND EXPENDITURE	11,959.0	11,939.0	13,487.0	12.8

[1] For comparative purposes, the 1988/89 estimate and the 1988/89 revised forecast have been restated to be consistent with the 1989/90 estimate.

[2] Percentage change between the 1988/89 estimate and the 1989/90 estimate.

[3] Includes an interest payment to the Budget Stabilization Fund of $45 million (1988/89 estimate), $74 million (1988/89 revised forecast) and $125 million (1989/90 estimate).

[4] Includes a $79 million transfer to the Budget Stabilization Fund (1988/89 estimate and 1988/89 revised forecast).

Ministry of Social Services and Housing expenditure is estimated to increase by $165 million to $1,610 million. Income assistance expenditure will increase by $71 million, due to expanded support and shelter allowances for income assistance recipients and increased benefits for the single disabled. Expenditure for services for families and children will increase by $16 million, while expenditure on rehabilitation and support services will increase by $20 million. Shelter Aid For Elderly Renters program expenditures are expected to increase by $8 million to almost $15 million, as a result of program enhancements.

Ministry of Transportation and Highways expenditure for 1989/90 is estimated at $1,016 million, an increase of $325 million from the 1988/89 estimates. Expenditure on highway capital construction will increase by $244 million while highway rehabilitation expenditure will increase by $51 million.

Ministry of Advanced Education and Job Training expenditure is estimated to increase by $121 million to $995 million. Increased operating contributions to universities of $30 million, increased contributions to colleges and institutes of $26 million and $35 million for access programs and enrolment increases, account for the majority of the ministry's expenditure increase. The $20 million authorization for the universities matching program is double the 1988/89 expenditure.

Expenditure of the Management of Public Funds and Debt vote is estimated at $651 million for 1989/90, an increase of $11 million from the 1988/89 estimates. However, the 1989/90 estimate includes an $80 million increase in General Fund interest payments to the Budget Stabilization Fund. As a result of reductions in government net debt, public debt interest payments to third parties will be $69 million lower in 1989/90 than in the 1988/89 estimates.

Gross borrowing for government purposes during 1989/90 of $163 million will be more than offset by repayment provisions, including sinking fund contributions, sinking fund earnings and debt maturities of $413 million. As a result, government purpose net debt is expected to decline by $250 million during 1989/90.

Crown corporation net borrowing is estimated at $113 million. Gross borrowing of $1,198 million will almost entirely be offset by repayment provisions. Details of the financing plan are provided in Appendix D.

At March 31, 1990 it is estimated that the financial assets of the government will total $7,215 million while financial liabilities will total $10,713 million. As a result, the excess of financial liabilities over assets, or net deficiency, at March 31, 1990 is estimated at $3,498 million. This consists of a General Fund deficiency of $4,879 million, net equity of the Budget Stabilization Fund of $1,059 million and net equity of the Privatization Benefits Fund of $322 million.

Government operating debt is expected to total $4,671 million at March 31, 1990 a decrease of 5.1 per cent from March 31, 1989.

Government, Crown Corporations and Agencies Borrowing Plan

	1988-89 Estimate Gross Borrowing[2]	1988-89 Revised Forecast Gross Borrowing[2]	1989-90 Estimate Gross Borrowing[2]	1989-90 Estimate Net Borrowing[3]
	($ millions)			
GROSS BORROWING REQUIREMENTS:[1]				
Government Purpose	419.6	207.9	163.0	(250.0)
Commercial Crown Corporations and Agencies	630.0	1,002.0	509.0	(296.9)
Economic Development Crown Corporations and Agencies	59.0	71.5	87.8	60.9
Social and Government Services Crown Corporations and Agencies	429.7	308.6	601.0	349.3
	1,118.7	1,382.1	1,197.8	113.3
TOTAL BORROWING REQUIREMENTS	1,538.3	1,590.0	1,360.8	(136.7)

[1] Fiscal agency debt of the government which has been reloaned to Crown corporations is included with Crown corporation debt.

[2] Gross new long-term borrowing plus net change in short-term debt.

[3] Gross borrowing less sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues). Amounts in this column represent the increase (decrease) in net debt.

Balance Sheet
General Fund and Special Funds

As at March 31.	Estimate 1989	Revised Forecast 1989	Estimate 1990
	($ millions)		
Assets:			
Cash and investments	1,485.7	2,135.1	1,573.7
Accounts receivable and inventories	772.5	977.0	1,006.0
Fiscal agency loans	3,315.8	3,508.3	4,455.0
Other assets	122.1	171.3	180.4
Total Assets	5,696.1	6,791.7	7,215.1
Liabilities and Net Equity:			
Liabilities			
Accounts payable, accrued liabilities and amounts due to Crown corporations and agencies	1,115.3	1,217.2	1,293.9
Deferred revenue	255.6	288.0	293.0
Direct debt issued for Government purposes	5,342.9	4,920.7	4,670.7
Direct debt to finance Fiscal Agency loans	3,315.8	3,508.3	4,455.0
	10,029.6	9,934.2	10,712.6
Net Equity (Deficiency):			
General Fund	(4,907.5)	(4,878.4)	(4,878.4)
Budget Stabilization Fund	574.0	1,433.9	1,058.9
Privatization Benefits Fund	—	302.0	322.0
	(4,333.5)	(3,142.5)	(3,497.5)
Total Liabilities and Net Equity	5,696.1	6,791.7	7,215.1
Guaranteed Debt	9,418.7	8,648.5	8,240.1

APPENDIX B

ECONOMIC OUTLOOK FOR BRITISH COLUMBIA

Overview of 1988

Growth in the British Columbia economy during 1988 was among the strongest of Canadian provinces. Provincial real Gross Domestic Product increased an estimated 4 per cent, a slight moderation in growth from the 4.6 per cent increase recorded in 1987. Economic activity during 1988 was driven by a second year of robust capital investment as businesses responded to improvements in key domestic and external markets.

The provincial economy also benefited from stronger-than-expected economic growth in the major industrial countries which kept commodity prices firm and fueled demand for the province's exports. Increased consumer spending and high levels of residential construction activity added to economic growth.

This second year of strong growth has resulted in many key provincial economic indicators showing their best performance in several years. Average employment grew 4 per cent in 1988, representing 52,000 jobs, the highest increase in employment since 1981. Employment in the goods-producing sector surged 9 per cent, reflecting the strength of the province's resource industries, while service sector employment increased by 2.2 per cent. The province's labour force grew 2.2 per cent in 1988, and the average unemployment rate fell from 11.9 per cent in 1987 to 10.3 per cent in 1988.

Increased economic activity and improved employment prospects attracted large numbers of in-migrants to British Columbia from other provinces and countries. Net in-migration totaled over 46,000 persons during 1988 with migrants from other Canadian provinces accounting for about 65 per cent of the total.

High levels of in-migration contributed to increased housing construction activity. Housing starts increased to 30,487 units in 1988, up from 28,944 units in 1987. This was the highest level of residential construction in seven years. Compared to 1987, housing starts were stable in the Vancouver and Victoria metropolitan areas in 1988, but increased by 19 per cent outside these two areas.

Employment growth and higher earnings helped increase total personal income 7.6 per cent in 1988. Strong employment growth, higher incomes and high levels of housing activity generated an 8.6 per cent increase in retail sales during 1988.

Rising international demand and tight supply helped to keep commodity prices relatively high in 1988. Pulp prices rose steadily throughout the year as existing world capacity strained to meet demand. Lumber prices declined, however, reflecting reduced housing activity in the United States. Increased demand, low inventory levels and supply disruptions around the world supported key metal prices during 1988. British Columbia producers benefited and significantly increased production of most major metals.

The value of manufacturing shipments rose 5.9 per cent in 1988, reflecting firm prices for most resource commodities and increased demand for British Columbia exports. The value of British Columbia exports rose 11 per cent in 1988 with significant increases recorded in exports to Japan and other Pacific Rim countries.

Business capital investment spending increased almost 25 per cent in 1988 as many businesses responded to improved market conditions and initiated capacity expansion projects. Business capital spending increases were broadly based in the non-resource manufacturing and service industries as well as in the pulp and paper and mining industries. Residential investment was also strong, increasing 15.5 per cent. In total, business, residential and government/ institutional investment increased 18.3 per cent in 1988.

British Columbia's labour relations environment was calm during 1988 despite a relatively heavy collective bargaining schedule. Worker-days lost due to work stoppages fell nearly 30 per cent even though there was a 16 per cent increase in the number of collective agreements negotiated. Annual wage increases provided in major collective agreements averaged 4.8 per cent, slightly in excess of the rate of inflation. Increases in the level of wage settlements during the latter part of 1988, however, suggest that wage and price pressures may accelerate during 1989.

Inflation in British Columbia remained at relatively moderate levels during 1988 with the Vancouver Consumer Price Index (CPI) rising 3.6 per cent and the Victoria CPI increasing 3.8 per cent. These rates were below the Canadian average of 4.1 per cent and lower than inflation rates in major cities in central Canada. The rise in the Vancouver CPI has been below the national increase for seven consecutive years while the Victoria CPI has risen more slowly than the Canadian CPI in each year since it was introduced in 1985.

The External Environment

Global economic activity was generally unaffected by the October 1987 stock market decline, which originally had been expected to lead to significantly slower economic growth during 1988. In fact, most major industrial economies experienced much stronger growth than had been forecast at the beginning of last year.

International cooperation and policy coordination contributed to the strong pace of economic expansion and helped avoid further upheavals in financial markets. However, international concerns continue to focus on the large international trade and fiscal imbalances which threaten financial market confidence and international economic stability.

The United States economy recorded its sixth consecutive year of expansion during 1988, growing by 3.9 per cent, compared to an increase of 3.4 per cent in 1987. Growth during 1988 was broadly based with business investment, consumer spending and an improvement in the trade deficit all making positive contributions, while a severe summer drought significantly reduced farm output. Strong growth in the other industrial countries helped reduce the United States' trade deficit.

The extended period of economic expansion in the United States has resulted in rising capacity constraints and tight labour markets. These developments, in turn, have contributed to rising wage and price pressures. As a result, the United States Federal Reserve is attempting to reduce inflationary expectations by increasing interest rates and slowing growth in the economy.

United States real Gross National Product is forecast to rise 2.8 per cent in 1989 with growth constrained by a tighter labour market, capacity limits and rising interest rates. A rebound in farm production from drought-depressed levels should boost growth in the first quarter of 1989 but rising interest rates are expected to slow growth during the remainder of the year.

The steady rise in interest rates negatively affected United States house construction activity in 1988 with housing starts falling 8.2 per cent to 1.49 million units, the lowest level of residential construction in five years. Housing starts are expected to total 1.45 million units in 1989. Construction activity in the United States influences lumber prices and British Columbia lumber exports.

The Japanese economy grew in excess of 5 per cent during 1988 due to increases in consumer spending, business investment and housing activity. Japan has been adjusting to an appreciation in the yen by redirecting its economy away from export-led growth. The Japanese economy is expected to remain a source of strength in the world economy during 1989, growing at between 4 and 4.5 per cent.

Major European economies also performed better than expected in 1988. The West German economy benefited from strong growth in the United Kingdom and other European countries which increased demand for West German exports. In the United Kingdom, business investment and consumer spending, spurred by tax cuts, increased overall growth but caused inflation and trade balance problems which continue in 1989.

"Europe 1992", the initiative to reduce trade barriers within the European Community, has created a new sense of optimism about the European economy. Like the Canada-U.S. Free Trade Agreement, it is spurring domestic and foreign investment as businesses position themselves to meet increased competition and take advantage of opportunities in new markets. The Organization for Economic Co-operation and Development expects the European economy to grow 3 per cent in 1989.

Canadian real Gross Domestic Product increased 4.5 per cent in 1988, the sixth consecutive year of steady economic growth. Growth was underpinned by increases in business investment and consumer spending but dampened by lower net exports. Increased employment resulted in the Canadian unemployment rate averaging 7.8 per cent in 1988, the lowest rate of unemployment in seven years.

High rates of economic growth, together with the Bank of Canada's determined anti-inflation policies, led to a steady rise in interest rates during 1988 and the early part of 1989. After averaging 10.75 per cent during 1988, the chartered bank prime lending rate has increased to 13.50 per cent. Long-term interest rates have risen much less, as the yield on 10-year-plus Government of Canada bonds is currently at its average 1988 level.

The rise in short-term interest rates relative to long-term bond yields may indicate confidence in financial markets that central banks will successfully contain inflation. The fast action of the Bank of Canada and the United States Federal Reserve to quell inflationary pressures suggests that interest rates may peak by mid-year at rates not far from current levels.

Higher interest rates and firm commodity prices contributed to an appreciation of the Canadian dollar against other major currencies during the latter part of 1988. Between May and December, the Canadian dollar rose 7.8 per cent against the Deutsche mark, 3.6 per cent against the U.S. dollar and 2.4 per cent against the Japanese yen. The Canadian currency was also supported by favourable international reaction to passage of the Canada-United States Free Trade Agreement which the international financial community believes will be beneficial to the Canadian economy. Although the Canadian dollar traded as high as 85¢ (U.S.) in February 1989, stability in commodity prices and an ongoing deterioration in Canada's current account are expected to cause the dollar to depreciate slightly from current levels, to an average of 82.5¢ (U.S.) in 1989.

The Free Trade Agreement is expected to stimulate capital investment in 1989 and beyond as Canadian businesses adjust to greater market opportunities in the United States and prepare for a more competitive business environment. However, higher interest rates and slower international economic growth are expected to reduce growth in the Canadian economy to 2.7 per cent in 1989.

British Columbia Outlook

The momentum built up in key areas of the British Columbia economy after two years of strong economic growth will ensure continued economic expansion, although external factors are likely to moderate growth. Slower growth in exports to major industrial countries and a smaller increase in capital investment should result in economic growth of 3 per cent in 1989.

Employment is forecast to increase 2.5 per cent in 1989 while the labour force is expected to grow 1.8 per cent. As a result, the provincial unemployment rate is projected to fall to 9.7 per cent. Net migration to British Columbia is expected to slow, with a net inflow of 38,800 people forecast for 1989. Most of the anticipated decline is in the interprovincial component, but stronger growth in British Columbia relative to central Canada and Alberta could result in higher in-migration than is forecast.

Total personal income is projected to grow 7.5 per cent in 1989, reflecting employment growth and rising average weekly earnings resulting from higher wage settlements negotiated in 1988.

The high level of new housing construction and the increased in-migration experienced over the past two years should continue to stimulate consumer spending. While retail sales may be restrained by rising interest rates, they are projected to increase 8 per cent in 1989. Similarly, housing activity should slow from high levels observed in 1988 due to higher mortgage costs and lower levels of in-migration. Housing starts are expected to total 29,000 units in 1989.

Capital investment should remain strong but may be dampened by rising interest rates and slower export growth. There are, however, several major capacity expansion projects in progress which will ensure a high level of capital expenditure in 1989. British Columbia capital investment is expected to increase 10 per cent in 1989 with the Canada-United States Free Trade Agreement spurring businesses to become more efficient and expand capacity.

The collective bargaining calendar is less crowded in 1989 than in 1988. A total of 305 major labour agreements will expire in 1989 with only 121,000 employees affected, down from 212,000 employees in 1988. British Columbia can look forward to a relatively stable labour relations environment over the next few years since many of the key collective agreements reached in 1988 were for three-year terms.

British Columbia inflation is expected to rise in 1989 although price increases should remain below the Canadian average. The Vancouver CPI is expected to increase 4.2 per cent in 1989 while inflation in Canada as a whole is projected to be slightly higher at 4.5 per cent.

Economic growth will be more balanced among the goods and services sectors as slower growth in commodity exports restrains expansion in the goods-producing sector, which was the main source of growth in 1987 and 1988.

Risks to the Forecast

A major risk to the 1989 outlook is the response of the monetary authorities to inflation, which has begun to accelerate in Canada and the United States. The Canadian and United States monetary authorities have raised interest rates in an attempt to slow economic activity to more sustainable and less-inflationary levels and to avoid a repeat of the double-digit inflation and very high interest rates of the early 1980's. If interest rate increases are excessive, however, the North American economy could be pushed into a major slowdown or recession.

As has been the case for a number of years, the economic outlook is clouded by huge trade and fiscal imbalances which undermine confidence that economic growth will continue. There is a general perception that, despite strong growth recently, the international economy has become more fragile because of these imbalances. Because trade links tie the British Columbia economy to the international economy, negative developments abroad would directly affect the province.

Despite these risks the British Columbia economy remains in a good position to withstand the effects of any significant slowing in international economic activity in 1989 or 1990.

Conclusion

The outlook for the British Columbia economy is positive. Growth is expected to slow slightly to levels more in line with the province's long-run economic potential. Any negative external developments, while possibly moderating the province's overall growth prospects, should be offset by the momentum built up in the British Columbia economy by two years of strong growth.

Table B1

British Columbia Economic Indicators

	1987	1988	1989[f]	1990[f]
Gross Domestic Product ($ million)	61,636	66,250[e]	70,970	76,000
(percentage change)	9.0	7.5	7.1	7.1
Real Gross Domestic Product (millions of constant 1981 dollars)	48,945	50,900[e]	52,430	53,740
(percentage change)	4.6	4.0	3.0	2.5
Capital Investment — New ($ million)	10,781	12,750	14,025	14,940
(percentage change)	12.6	18.3	10.0	6.5
Housing Starts (units)	28,944	30,487	29,000	29,000
(percentage change)	39.9	5.3	− 4.9	—
Retail Sales ($ million)	17,116	18,595	20,080	21,350
(percentage change)	10.0	8.6	8.0	6.3
Vancouver Consumer Price Index (1981 = 100)	133.3	138.1	143.9	150.4
(percentage change)	3.1	3.6	4.2	4.5
Population 15 and Over (thousands)	2,258	2,306	2,354	2,396
(percentage change)	1.5	2.1	2.1	1.8
Labour Force (thousands)	1,482	1,514	1,541	1,567
(percentage change)	2.1	2.2	1.8	1.7
Employment (thousands)	1,306	1,358	1,392	1,420
(percentage change)	2.8	4.0	2.5	2.0
Unemployment Rate (per cent)	11.9	10.3	9.7	9.4
			percentage change	
Other Forecasts of Real Gross Domestic Product				
Conference Board of Canada (February 1989)		4.0	2.9	3.1
Royal Bank of Canada (November 1988)		4.3	2.0	1.8
Bank of Nova Scotia (January 1989)		4.5	3.1	n.a.
British Columbia Central Credit Union (October 1988)		3.5	3.0	n.a.

[e] Ministry of Finance and Corporate Relations estimate.
[f] forecast.

APPENDIX C

REVENUE MEASURES

C1: SUMMARY OF REVENUE MEASURES

	Effective Date	Revenue Effects 1989/90	1990/91
		($ millions)	
Home Owner Grant Increase Act			
Home owner grants increased	January 1, 1989	−33.0*	—**
Income Tax Act			
Renter's Tax Reduction introduced	January 1, 1989	—	−15.0
Land Tax Deferment Act			
Eligibility age reduced from 65 to 60	January 1, 1989	−0.3	−0.3
Medical Services Act			
Medical Services Plan premiums increased	April 1, 1989	+37.5	+38.0
Medical Services Plan premium assistance program expanded in two steps	January 1, 1989 and July 1, 1989	−15.5	−17.6
Motor Fuel Tax Act			
Authorized use of coloured fuel by the mining industry extended	April 1, 1989	−0.2	−0.2
Property Purchase Tax Act			
Tax relief provided to eligible individuals buying eligible residential property for own use and with high ratio financing	March 31, 1989	−12.5	−12.5
Social Service Tax Act			
Exemptions provided for prescribed environmental enhancement items	To be determined	***	***
Exemption provided for magnetite	March 31, 1989	−0.3	−0.3
Tobacco Tax Act			
Tax on loose tobacco products increased	April 1, 1989	+12.0	+12.0
Total		−12.3	+4.1

* The Home Owner Grant Program is shown as expenditure in the *1989/90 Estimates*.
** The legislation provides this increased grant solely for the 1989 taxation year.
*** There will be a revenue effect in 1989/90 and in 1990/91 when the items are prescribed.

C1: REVENUE MEASURES: SUPPLEMENTARY INFORMATION

Home Owner Grant Increase Act

The basic home owner grant is increased to $430 from $380 for 1989. For seniors, the disabled and recipients of war veterans allowances, the grant is increased to $700 from $630 for 1989.

Income Tax Act

Renter's Tax Reduction

Low income renters will be eligible for a tax reduction to be applied against 1989 British Columbia income tax otherwise payable. The tax reduction will be equal to $200 per taxpayer plus $200 per dependent (not to exceed 10 per cent of 1989 rent paid) minus three per cent of net family income in excess of $10,000. The tax reduction will be phased out over the subsequent four years.

Example: A family of four with income of $20,000 will be eligible for a tax reduction of $500, assuming rent paid is not less than $8,000 annually.

Land Tax Deferment Act

Effective January 1, 1989, the age at which homeowners may defer payment of property taxes on their residence is reduced from 65 years to 60.

Medical Services Act

Medical Services Plan premiums increased

Effective April 1, 1989, Medical Services Plan premiums will be increased to $62 per month for a family of three or more, $55 for a family of two and $31 for single subscribers. Currently, monthly rates are $58, $52 and $29, respectively.

Medical Services Plan premium assistance program expanded

The premium assistance program will be expanded to offset increased premiums and to provide greater assistance to lower income subscribers. The premium assistance eligibility criteria have also been redefined in response to changes arising from federal tax reform.

In 1988, premium assistance equal to 95 per cent or 55 per cent of full premiums was given to subscribers with 1987 family taxable income of less than $2,500, or between $2,500 and $6,000, respectively.

Effective January 1, 1989, premium assistance eligibility has been determined on the basis of Adjusted Family Net Income. This is calculated as family net income (for tax purposes) reduced by $3,000 per dependent and $3,000 for each family member who is disabled or over 65 years of age. Assistance at 95 per cent of full premiums is extended to all subscribers having 1988 Adjusted Family Net Income of less than $9,000. Assistance at 55 per cent of premium costs is given to those with adjusted incomes between $9,000 and $13,000.

Effective July 1, 1989, premium assistance will be further enhanced and offered at five levels in place of two. The new levels of assistance and the corresponding Adjusted Family Net Income ranges to which they apply are:

Premium Assistance (per cent)	Adjusted Family Net Income
95	0 to $ 9,000
75	$ 9,001 to $11,000
55	$11,001 to $13,000
35	$13,001 to $15,000
15	$15,001 to $17,000

Example: A seniors couple with family income of $23,000 will have total deductions of $9,000, resulting in an Adjusted Family Net Income for the purposes of this program of $14,000. This would qualify them for premium assistance equal to 35 per cent of full premium cost.

These changes provide an improved graduated scale of assistance to individuals and families.

It is expected that an additional 120,000 subscribers, (including dependents) will be eligible for premium assistance under the expanded program, increasing the total number of subscribers and dependents eligible for assistance to 540,000.

Motor Fuel Tax Act

Effective April 1, 1989, the types of mining industry vehicles which may use coloured gasoline are expanded to parallel the use of coloured gasoline by forest industry vehicles.

Property Purchase Tax Act

Property purchase tax is payable on application to register a taxable transaction in a Land Title Office at a rate of one per cent on the first $200,000 of fair market value and two per cent on the balance.

Effective March 31, 1989, tax relief is provided to eligible purchasers of eligible residential property where high ratio financing is required to purchase the property. Eligible purchasers are individuals who:

- have resided in British Columbia for at least one year prior to the application to register the taxable transaction; and
- require registered financing for an amount in excess of 75 per cent of the fair market value of the property.

Eligible properties are:

- properties acquired for use as the purchaser's principal residence; and
- properties with a fair market value not exceeding $150,000.

The amount of the tax relief is equal to four per cent of the difference between the amount of the registered financing (to a maximum of 95 per cent of the fair market value of the property) and 75 per cent of the fair market value of the property.

Social Service Tax Act

Exemption for prescribed environmental enhancement items

Effective upon being prescribed, environmental enhancement and pollution control products will be exempted from social service tax.

Exemption for Magnetite

Effective March 31, 1989, magnetite used in coal processing will be exempt from the payment of social service tax.

Tobacco Tax Act

Effective April 1, 1989, the tax rate on loose tobacco products will increase from 48.5 cents per 25 grams (1.9 cents per gram) to 3.8 cents per gram to reduce the tax rate differential between loose tobacco products and cigarettes. The tax rate will continue to be adjusted semi-annually, on March 1 and September 1, to reflect changes in the Vancouver Consumer Price Index for tobacco.

C2: SUMMARY OF ADMINISTRATIVE MEASURES

	Effective Date
Hotel Room Tax Act	
Interest provision clarified	March 31, 1989
Motor Fuel Tax Act	
Quarterly fuel tax rate adjustments to be based on a three month average of gasoline prices	April 1, 1989
Retail dealers, who do not remit tax to wholesale dealers, required to remit tax to the Minister of Finance and Corporate Relations	April 1, 1989
Property Purchase Tax Act	
Certain definitions and exemptions clarified	March 31, 1989
Provision permitting security for payment of tax repealed	March 31, 1989
Exemption provided for transfers to the Crown for highway or park purposes	March 31, 1989
Exemption for transfers from tenancies in common to joint tenancies repealed	March 31, 1989
Exemption for transfers from joint tenancies to tenancies in common restricted	March 31, 1989
Certain transfers by related individuals restricted	March 31, 1989
Social Service Tax Act	
Prepayment of tax required for liquor sold under a Special Occasion Licence	May 1, 1989
Exemption now provided for explosive supplies on a refund basis changed to a point of sale basis	March 31, 1989
Authority provided to the Commissioner to exempt vendors on international passenger vessels from the requirement to collect tax	March 31, 1989
Penalty and interest provisions clarified	March 31, 1989
Signature of person who overpaid tax required on refund application	March 31, 1989
Definition of lease clarified	March 31, 1989
Determination of tax on used equipment in certain situations clarified	March 31, 1989
Tobacco Tax Act	
Calculation of loose tobacco tax rate changed from tax payable per 25 grams or any portion thereof to tax payable per gram	April 1, 1989
A refund and pre-approval system implemented for tobacco intended for sale outside the province	April 1, 1989
Authority provided to implement a provincial tobacco tax-paid marking system	April 1, 1989
Interest provisions clarified	March 31, 1989

C2: ADMINISTRATIVE MEASURES: SUPPLEMENTARY INFORMATION

Hotel Room Tax Act

The provision which allows the imposition of interest on unpaid taxes will be clarified.

Motor Fuel Tax Act

Indexing of quarterly adjustments

At present, fuel tax rates are adjusted quarterly on the basis of the change in the gasoline subcomponent of the Vancouver Consumer Price Index for the preceding month. Effective April 1, 1989, quarterly adjustments will be based on the average price change for the preceding three month period.

Remittance by retail dealers

Generally, retail dealers of motor fuel products remit tax to a wholesale dealer who, in turn, remits the tax to the Minister of Finance and Corporate Relations. The provision is clarified to require a retail dealer who does not remit tax to a wholesale dealer to remit the tax directly to the Minister of Finance and Corporate Relations.

Property Purchase Tax Act

Certain definitions and exemptions clarified

The definition of taxable transaction is amended to clarify that the registration of an agreement for sale is taxable whether or not it includes a right to occupy the property.

The exemption for a transfer of certain types of property from a trustee to the beneficiary of an intervivos trust, where the beneficiary is related to the settler of the trust, is amended to clarify that the trustee must be registered under the *Land Title Act.*

The exemption for a transfer pursuant to a written separation agreement or court order under the *Family Relations Act* is amended to clarify that it applies only to transfers between spouses or former spouses.

The exemption which allows registered owners of a property to subdivide the property and each acquire sole title to a subdivided portion is amended to clarify that the exemption only applies where a *single* parcel is subdivided into smaller parcels.

The exemption for a transfer to facilitate a plan of subdivision is amended to clarify that the proportion of registered interest refers to the relative area of the land owned by each party before and after the subdivision.

Security for payment of tax

The provision permitting the Administrator to accept security for the payment of tax is repealed.

Certain transfers to the Crown exempted

Effective March 31, 1989, an exemption is provided for transfers of land to the Crown where the land transferred is within a municipality and is to be used for highway or park purposes.

Change in tenancy

Effective March 31, 1989, the exemption for a transfer which changes a tenancy in common to a joint tenancy is repealed. This amendment removes the ability of certain taxpayers to avoid the two per cent rate of tax on transfers of property valued at more than $200,000. Concurrently, the exemption for a transfer which changes a joint tenancy to a tenancy in common is restricted to

ensure that after the change of tenancy, each person's interest in the land is equal to the interest held by each of the other owners.

Certain transfers by related individuals restricted

Effective March 31, 1989, a provision is introduced to remove the ability of related individuals to avoid the two per cent rate of tax by buying partial interest in a property.

Social Service Tax Act

Special Occasion Licence

At present, liquor sold by the holder of a Special Occasion Licence is subject to social service tax. The licence holder is required to collect and remit tax. Effective May 1, 1989, the holder of a Special Occasion Licence will be required to prepay an amount equal to the estimated tax which would be collected on resale at the time of application for the licence.

Exemption for drill bits and explosives

At present, tax must be paid at the time of purchase of explosive supplies used for mineral exploration, development or production, but is refundable on application by the purchaser. Effective March 31, 1989, those items may be purchased exempt of tax.

Vendors on international passenger vessels

Effective March 31, 1989, the Commissioner may exempt a vendor on a scheduled commercial passenger carrying vessel which sails between British Columbia and foreign ports, from the requirement to collect social service tax.

Penalty and interest provisions

The provision of the Act which imposes a penalty for failure to collect tax will be amended to clarify that the penalty forms part of the Crown's lien for unpaid taxes. The provision which allows the imposition of interest on unpaid taxes will also be clarified.

Refund applications

Effective March 31, 1989, a refund application must be signed by the person who overpaid the tax. If the overpayment was made by a corporation, the application must be signed by a director or authorized employee of the corporation.

Definition of lease

Social service tax applies to the price paid under a lease for the rental of property which, if purchased, would be subject to tax. The Act will be amended to clarify that an agreement which provides a right to use property which, if purchased, would be taxable, will be taxed on the same basis as a lease.

Tax on used equipment

Social service tax is payable when property is converted from an exempt use to a taxable use and when property is brought into British Columbia for use in the province. The Act will be amended to clarify that tax on used equipment, in those situations, is based on depreciated value rather than on the purchase price.

Tobacco Tax Act

Calculation of loose tobacco tax rates

Currently, the tax payable on loose tobacco is calculated on the basis of tax payable per 25 grams or any portion thereof. Effective April 1, 1989, tax payable will be calculated on a per gram basis to ensure that all loose tobacco products are taxed at the same rate. Where loose tobacco is sold by the ounce, the weight will be converted to grams and taxed at the per gram rate.

Refund and pre-approval system

Currently, wholesale dealers are not required to remit an amount equal to the tax on tobacco products to be sold outside of British Columbia. Effective April 1, 1989, wholesale dealers are required to remit that amount and claim a refund or receive pre-approval from the Director not to remit that amount.

Tax-paid marking system

Authority is provided to allow the province to implement a tobacco tax-paid marking system, if required, to ensure that tax is paid on all tobacco products sold in British Columbia.

Interest provision

The provision which allows the imposition of interest on unpaid taxes will be clarified.

APPENDIX D

PROVINCIAL GOVERNMENT AND CROWN CORPORATION FINANCING

Overview

The provincial government and its Crown corporations and agencies incur debt to finance government operations and capital projects. At March 31, 1988 government and Crown corporation net debt totalled $17.3 billion, equal to 28.1 per cent of provincial gross domestic product (GDP). During 1988/89, net debt is expected to decline by $608 million. A further decline of $137 million is expected during 1989/90. At March 31, 1990, government and Crown corporation net debt is, therefore, expected to total $16.6 billion, equal to 23.3 per cent of GDP. This is the lowest level of government and Crown corporation net debt in relation to provincial GDP since March 31, 1982.

The downward trend in government and Crown corporation debt is the result of prudent fiscal management and strong economic growth which have greatly reduced borrowing requirements. The improvement in the provincial government's debt profile and fiscal position was recently acknowledged when the Dominion Bond Rating Service raised the province's credit rating from AA (low) to AA.

British Columbia government debt continues to compare favourably to that of other provincial jurisdictions in Canada. In a 1988 analysis conducted by Standard and Poor's Corporation — a major United States credit rating agency — British Columbia was reported to have the second lowest debt level in relation to GDP of the nine Canadian provinces examined and the lowest level of tax supported debt in relation to GDP.

Financing Process

Provincial government and Crown corporation debt is incurred by one of three financing methods:

- debt issued by the government for its own purposes;
- fiscal agency debt incurred in the name of the government with the proceeds reloaned to Crown corporations and agencies; and,
- debt incurred by Crown corporations and agencies with a provincial government guarantee of the payment of principal, premium and interest.

In 1983, an amendment to the *Financial Administration Act* authorized the provincial government to undertake fiscal agency borrowings. Over the past six years, Crown corporations and agencies have predominantly relied upon the government for fiscal agency loans, as opposed to issuance of guaranteed debt, to meet their borrowing requirements. These corporations are able to realize advantageous borrowing terms by consolidating their relatively small financing requirements into larger debt instruments issued by the provincial government.

Regardless of the borrowing method used by Crown corporations and agencies, financing costs and repayment of borrowings remain the responsibility of the Crown corporation or agency. In certain cases the provincial government provides a contribution to cover all or a part of debt service costs.

Current policy requires the provincial government and Crown corporations to establish sinking funds for essentially all debt with a term of five years or more, in order to provide for orderly repayment of the debt at maturity. At March 31, 1989, sinking fund investments are estimated at over $3.8 billion. Total debt with a term of one year or longer is 60 per cent funded based on assumed earnings of eight per cent on existing sinking fund balances and future sinking fund instalments.

Composition of 1989/90 Government and Crown Corporation Borrowing and Debt

The 1989/90 financing plan for the government and its Crown corporations is outlined in Table D1.

Gross borrowing requirements for provincial government purposes are estimated at $163 million during 1989/90. However, these requirements are expected to be more than offset by debt maturities and sinking fund contributions. As a result, net debt incurred for government purposes is forecast to decline for the second year in a row to $4.7 billion, or 28.2 per cent of government and Crown corporation net debt outstanding at March 31, 1990.

Commercial Crown corporations, which include British Columbia Hydro and Power Authority, British Columbia Enterprise Corporation and British Columbia Railway Company, generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges. Gross requirements of $509 million for these Crown corporations are expected to be more than offset by debt maturities and increases in sinking fund balances. As a result, net debt of commercial Crown corporations is expected to decrease by $297 million during 1989/90 to approximately $7.6 billion, or 45.8 per cent of total net debt outstanding at March 31, 1990.

The major economic development Crown corporations of the provincial government are British Columbia Ferry Corporation and British Columbia Transit. Economic development Crown corporations are generally operated as commercial corporations, but may not necessarily generate sufficient financial return to service their debt. Because these corporations provide economic benefits to the province, the government provides grants or other forms of assistance. During 1989/90, the gross requirements of economic development Crown corporations are expected to total $88 million. These requirements will be partially offset by repayment and sinking fund provisions of $27 million. Net debt of economic development Crown corporations and agencies is expected to total $1.3 billion or 7.9 per cent of total net debt outstanding at March 31, 1990.

Social and government services debt has been used to fund social and government service capital projects. Financing authorities that provide funds for the construction of hospitals, schools and post-secondary educational institutions comprise the largest component in this category. Debt service requirements are met through provincial grants or rental payments and, for schools and hospitals, partly from local property tax levies. During 1989/90, the gross requirements of social and government service Crown corporations and agencies of $601 million are expected to be partially offset by repayment and sinking fund provisions of $252 million. Net debt for social and government services capital projects is expected to increase to $3.0 billion, or 18.1 per cent of total net debt outstanding by March 31, 1990.

Table D1

Government, Crown Corporation and Agencies Financing Plan

	Net Debt Outstanding at March 31, 1988	1988/89 Transactions — New Borrowing[1]	1988/89 Transactions — Less Retirement Provision[2]	Forecast Net Debt Outstanding at March 31, 1989	1989/90 Transactions — New Borrowing[1]	1989/90 Transactions — Less Retirement Provision[2]	Forecast Net Debt Outstanding at March 31, 1990
	($ millions)						
PURPOSES:							
Provincial Government	5,016.7	207.9	303.9	4,920.7	163.0	413.0	4,670.7
Commercial Crown Corporations and Agencies:							
British Columbia Enterprise Corporation	169.1	(88.0)	43.8	37.3	—	37.3	—
British Columbia Hydro and Power Authority	8,100.9	1,090.0	1,633.0	7,557.9	484.0	743.4	7,298.5
British Columbia Railway Company	298.8	—	0.1	298.7	25.0	25.2	298.5
	8,568.8	1,002.0	1,676.9	7,893.9	509.0	805.9	7,597.0
Economic Development Crown Corporations and Agencies:							
British Columbia Ferry Corporation	78.9	—	6.2	72.7	—	6.2	66.5
British Columbia Transit	1,112.2	80.0	19.1	1,173.1	87.8	20.7	1,240.2
Other	10.2	(8.5)	0.1	1.6	—	—	1.6
	1,201.3	71.5	25.4	1,247.4	87.8	26.9	1,308.3
Social and Government Services Crown Corporations and Agencies:							
British Columbia Assessment Authority	4.3	—	—	4.3	0.5	—	4.8
British Columbia Buildings Corporation	398.9	60.0	26.8	432.1	139.0	73.0	498.1
British Columbia Educational Institution Capital Financing Authority	379.0	36.0	18.4	396.6	106.0	23.7	478.9
British Columbia Regional Hospital Districts Financing Authority	748.7	95.2	63.0	780.9	171.5	66.7	885.7
British Columbia School Districts Capital Financing Authority	869.7	62.0	82.0	849.7	187.0	86.8	949.9
Capital Project Certificate of Approval Program[3]	90.0	61.4	—	151.4	—	—	151.4
British Columbia Systems Corporation	47.3	(6.0)	1.4	39.9	(3.0)	1.5	35.4
	2,537.9	308.6	191.6	2,654.9	601.0	251.7	3,004.2
Less Amounts Held as Investments by General Fund and Special Funds	9.2	—	—	9.2	—	—	9.2
GOVERNMENT, CROWN CORPORATION AND AGENCIES DEBT TOTAL	17,315.5	1,590.0	2,197.8	16,707.7	1,360.8	1,497.5	16,571.0
SOURCES:							
Canada Pension Plan Investment Fund	4,760.7	268.2	159.3	4,869.6	358.1	128.1	5,099.6
Trusteed Funds Private Issues Public Issues	15,749.3	1,321.8	1,381.1	15,690.0	1,002.7	913.5	15,779.2
Total Before Sinking Funds	20,510.0	1,590.0	1,540.4	20,559.6	1,360.8	1,041.6	20,878.8
Sinking Funds	3,194.5	—	657.4	3,851.9	—	455.9	4,307.8
TOTAL SOURCES OF FUNDS	17,315.5	1,590.0	2,197.8	16,707.7	1,360.8	1,497.5	16,571.0

[1] Gross new long-term borrowing plus net change in short-term debt.

[2] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[3] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program are used as interim financing for capital construction and are eventually converted to long-term debt.

Other Debt and Guarantees

The provincial government, over the years, has provided a limited number of loan guarantees to private sector firms and individuals in the form of student loans, loans to agricultural producers and, commencing in 1988/89, loans made to small business under the Regional Seed Capital Program. In addition, the provincial government has offered limited fiscal agency financing to other public bodies in the province such as the three universities and local governments. As shown in Table D2, other debt and guarantees are expected to total $795 million by March 31, 1990.

The increase since March 31, 1988 is primarily the result of two privatization initiatives. During 1988/89, the provincial government guaranteed a $150 million bond issue for B.C. Gas Inc. as part of the privatization of the Mainland Gas Division of British Columbia Hydro and Power Authority. In February, 1989 the provincial government announced that it would sell the $300 million British Columbia Second Mortgage Program portfolio with a provincial government guarantee in early 1989/90. In addition, home purchase assistance will continue into the future with private sector financial institutions making mortgage loans to individuals which incorporate a provincial government guarantee.

Table D2
Other Debt and Guarantees

	Net Debt Outstanding at March 31, 1988	Forecast Net Debt Outstanding at March 31, 1989	Forecast Net Debt Outstanding at March 31, 1990
	($ millions)		
Fiscal Agency Borrowing	90.0	97.1	175.2
Guarantees	102.7	272.7	619.6
Total Other Debt and Guarantees	192.7	369.8	794.8

Sources of Funds

In order to minimize costs, the government raises funds through a variety of instruments, depending upon financial market conditions and subject to an appropriate debt portfolio mix. The terms of the instruments are selected to match the expected life of assets acquired with the proceeds of the issue, to meet future repayment schedules for existing debt and to ensure that risks associated with interest rate fluctuations are limited.

Funds borrowed to date have come from a variety of sources, including public financial markets, the Canada Pension Plan Investment Fund, private institutional lenders and provincial trusteed funds.

Borrowing from the Canada Pension Plan Investment Fund has been used mainly to finance social capital projects such as schools and hospitals. Provincial Trusteed Funds, which include provincial public sector pension funds and provincially administered sinking funds, at one time provided an important source of funds for Crown corporations. In 1988/89, however, less than 2 per cent of borrowings have been from Trusteed Funds.

Most of the provincial government's funds have been obtained through medium and long-term debt issues in public capital markets. Public issues have been undertaken in markets in Canada, the United States and Europe, in either Canadian or U.S. dollars. To a lesser extent, private placements in North America, Europe and Japan have been a source of medium and long-term funds. As in the case of public issues, the ultimate liabilities of all private placements are payable in either Canadian or U.S. dollars.

The move away from U.S. dollar borrowing began in 1984. Since July of that year, all new debt has been denominated in Canadian dollars. This reflects a change in policy designed to reduce the government's foreign currency exposure. The currency exposure was largely the result of significant U.S. dollar borrowings in the 1970's for hydro projects.

Over the last year, the provincial government, in conjunction with British Columbia Hydro and Power Authority, has been able to take advantage of a strengthened Canadian dollar to significantly reduce its U.S. dollar exposure. This has been achieved by refinancing all maturing U.S. dollar debt in Canadian dollars and by an active hedging program, which has included the purchase of U.S. dollar investments for sinking funds and the purchase of forward foreign exchange contracts. Total U.S. dollar debt outstanding is forecast to decline to U.S. $1.5 billion at March 31, 1989 from U.S. $4.0 billion in 1985.

While the provincial government has not borrowed medium or long-term funds in the United States since 1984, it is important to maintain access to this market. To ensure access, a shelf registration was recently filed with the Securities and Exchange Commission. The provincial government is now in a position to take advantage of cost effective financing opportunities when they present themselves.

In 1988, the provincial government issued British Columbia Savings Bonds to meet part of its medium-term funding requirements. The issue successfully raised over $200 million and provided British Columbians with a safe and market competitive savings instrument.

Short-term debt instruments have also become an important source of funds for both the provincial government and its agencies. A weekly Treasury Bill auction raises funds for government purposes and commercial paper has been issued in Canada and the United States for periods ranging from one day to one year. The size of the short-term debt portfolio fluctuates from one year to the next, reflecting the interest rate cycle and cash requirements.

Conclusion

Net debt of the provincial government and its Crown corporations increased significantly during the early 1980's. At March 31, 1985, net debt peaked at over 30 per cent of provincial GDP. Its estimated level of 23.3 per cent at March 31, 1990 is the lowest in eight years, and reflects both the reduced borrowing requirements of Crown corporations and government deficit reduction.

APPENDIX E

THE PROVINCIAL HOUSING ACTION PLAN

Rapid Growth in Demand for Housing

The price of economic success has been a shortage of affordable housing. In some parts of the province, house prices have risen sharply, rents are increasing and rental vacancy rates are the lowest they have been in years. Compounding these problems of housing affordability and availability are rising interest rates.

The shortage of affordable housing is primarily caused by increased in-migration to British Columbia, now at the rate of approximately 46,000 people per year, almost two-thirds of whom come from other provinces. The inflow of people mainly results from economic growth in recent years, which has led to expanded employment opportunities. Most of these new British Columbians have arrived in the Lower Mainland or Greater Victoria.

Unless in-migration stays high or increases, the housing market will likely adjust over the next few years to higher population densities and the greater demand for housing. As this happens, house prices and rents will stabilize and housing availability will improve. In the meantime, government action is needed to assist renters, home owners and first-time home buyers.

The provincial government has an Action Plan. Existing housing programs have been reviewed and, as a result, some of them have been enhanced and new ones have been developed. The thrust of these programs is three fold: one, to give long-term assistance to persons and families unable to afford market-priced housing, including some seniors and the disabled; two, to smooth the adjustment of the rental housing market to higher densities and increased supply; and three, to encourage home ownership.

All provincial housing and housing-related programs, except the services offered by the Residential Tenancy Branch, can be grouped under one of three themes: programs to directly assist renters; programs to increase the supply of rental housing; and programs to encourage home ownership. These programs, under the headings of the three themes, are outlined below.

The total cost of these programs for 1989/90 is expected to be almost $900 million. This is an increase of more than $120 million from the cost of the province's housing and housing-related programs in 1988/89.

Rental Assistance Programs

The government recognizes that some families and people living on their own, who are in financial need, should be given special assistance to help them secure affordable and adequate housing. Several programs have been designed for this purpose.

Guaranteed Available Income for Need (GAIN) Shelter Allowances

Income assistance, including a shelter allowance, is available to British Columbia residents in financial need between the ages of 19 and 64 years. The shelter allowance covers shelter costs up to a maximum that varies with family size and composition.

In response to rising rents, the maximum shelter allowances available through the GAIN program will be increased by five per cent, effective July 1, 1989.

Social Housing Programs

There are 51,000 social housing units in British Columbia. They are directed to low-income families, seniors and the disabled.

Of these 51,000 units, 31,000 exist as a result of current or past federal-provincial cost-sharing programs; and 15,600 of them are still being subsidized. Provincial subsidies are provided through the British Columbia Housing Management Commission (BCHMC), which also manages the roughly 8,000 public housing units owned by the province.

In 1989/90, the province will spend $23.6 million through the British Columbia Housing Management Commission to manage the province's public housing portfolio and to subsidize social housing tenants, including the new residents of the more than 1,800 units that will become available in 1989/90. This represents a $2.8 million increase from budgeted expenditure levels in 1988/89. In addition, the net cost of purchasing social housing sites for use in 1989/90 and subsequent years will be $5.5 million in 1989/90.

The province strongly desires to increase the number of units approved for construction under cost-sharing arrangements with the federal government in 1989/90. Under the current agreement over 1,800 new units will be started. The Minister of Social Services and Housing will offer to negotiate an expansion in this number with the federal government.

Renter's Tax Reduction (new program)

To assist working families who rent, the province is introducing a new Renter's Tax Reduction, starting in 1989, intended to be administered through the income tax system. The base amount of the tax reduction will be $200 per family member, but with a limit equal to 10 per cent of rent payments for the tax year. In order to target this benefit to low-income families, the base tax reduction will be reduced by three per cent of family net income over $10,000 for the year. For example, a family of four with net income of $20,000 and rent of $700 per month will be eligible for a tax reduction of $500, which will be deducted from provincial income tax otherwise payable.

Approximately 80,000 individuals and families who rent will be assisted through this program. Claims for the tax reduction will be made when 1989 income tax returns are filed in early 1990.

This program is intended as a transitional measure during the current period of low vacancy rates and will be phased out over four years.

Shelter Aid For Elderly Renters (SAFER)

The SAFER program gives assistance to low- and moderate-income seniors who pay more than 30 per cent of their income as rent. Assistance is calculated as 75 per cent of the difference between rent, up to $330 per month for single seniors and $365 for couples, and 30 per cent of total income.

This program will be enhanced starting July 1, 1989. The age for eligibility will be lowered from 65 years to 60 and the program will cover rents up to $450 per month for singles and $475 per month for couples. Also, assistance will be calculated under a formula that will give greater benefits to low-income seniors than they receive under the current program.

In 1988/89, 8,000 seniors were assisted through this program. In 1989/90, an additional 5,700 seniors should benefit from the program enhancements and almost all of those currently receiving assistance will receive greater benefits if their rent and income levels do not change.

Rental Supply Programs

The province is seeking to promote stability in the rental housing market by stimulating the supply of rental housing. The rental supply programs are designed to increase the construction of new rental housing, especially in Greater Vancouver and Greater Victoria, without requiring expensive and extended programs of rental subsidies.

Rental Housing Interest Assistance Program (new program)

Among the factors discouraging the construction of new rental housing are high interest rates. To reduce this obstacle, the province will provide interest rate subsidies on five-year mortgages for eligible rental housing projects.

Under this program, an investor in new, moderate-rent housing will be able to apply for a mortgage at as much as three percentage points below market rates, if the mortgage is arranged through a participating financial institution. No limit has been set on the total amount of financing that will be eligible for the interest rate subsidy program, but investors will be required to provide a specified amount of equity and meet the requirements for commitments to maintain moderate rent levels.

Crown Land Rental Housing Development Program (new program)

The province will sell or lease Crown land with the condition that the purchaser develop rental housing. The province will encourage municipalities to make their own land available for this program and will discuss with them the feasibility of having this program overseen by a joint provincial/municipal task force. The province will share the revenues of provincial land sales or leases with those municipalities who choose to participate in this program through the provision of prompt action on zoning, including densities.

Rental housing developers will be encouraged to participate in the program in two ways: they will be forgiven the property purchase tax otherwise payable; and two, they will have reduced land costs because the land will be offered for sale or lease on the condition that it be used only for rental housing.

Start Up Grants for Non-Profit Seniors Housing (new program)

To assist non-profit societies in providing unsubsidized, rental housing for seniors, the province, through the British Columbia Housing Management Commission, will offer start-up grants of up to $20,000 per eligible project.

Municipal Incentive Grants (new program)

The province will offer the municipalities conditional grants based on the number of starts of new, multi-family rental housing units. The grants are expected to range up to $2,500 per unit. This program will assist municipalities in providing services to new multi-family rental developments and encourage the municipalities to expedite the zoning and regulatory procedures involved in multi-family rental developments.

Business Immigration Program

The investor category of the Business Immigration Program, in the Ministry of International Business and Immigration, has a housing component designed to increase the supply of affordable rental housing in British Columbia.

Under this component of the program, the construction of affordable rental housing will be encouraged by allowing investors seeking landed immigrant status to qualify in part on the basis

of this type of investment. Housing project proposals by prospective investor immigrants will be assessed on the basis of their overall contribution to the social and economic needs of the province.

The program is not yet fully operational; however, the federal government is prepared to negotiate the remaining arrangements required to put the program into effect.

Home Ownership Programs

The government strongly supports home ownership and encourages British Columbians to own homes through several programs that assist home owners and first-time home buyers. All the following programs are being improved or are new programs.

Home Owner Grant Program

The province supports home ownership and reduces property taxes by offering home owners an annual grant to be applied against their property taxes.

In 1988, two levels of grant were offered: a grant of $630 for seniors, the disabled and recipients of war veterans allowances; and a basic grant of $380 for all other home owners.

The program is being enhanced for 1989. The total 1989 grant paid to seniors, the disabled and recipients of war veterans allowances will be increased by $70 to $700, while the 1989 basic grant will be raised by $50, to $430.

More than 700,000 home owners will receive the Home Owner Grant in 1989 at a cost to the province of $343.4 million in the 1989/90 fiscal year. Over 640,000 of the recipients of the Home Owner Grant will receive the increase; the remainder will pay only the minimum property tax.

British Columbia Second Mortgage Program

Eligible home buyers can obtain second mortgages through the British Columbia Second Mortgage Program. Second mortgages of up to $10,000 have been available for homes valued at $85,000 or less.

The program is being privatized. Second mortgages will be replaced by provincial loan guarantees, effective June 15, 1989, to facilitate delivery by the private sector. The guarantees will be attached to first mortgages issued by financial institutions. The eligible house price limit will at that time be raised to $100,000 and the maximum assistance available will increase to $12,000.

Property Purchase Tax Relief (new program)

Home buyers with high-ratio mortgages will now qualify for property purchase tax relief. Home buyers who have lived in British Columbia for at least one year will have the property purchase tax for the purchase of their principal residence reduced by four per cent of the difference between the amount of registered financing and 75 per cent of the property's fair market value, on homes valued at $150,000 or less. For example, a person buying a $100,000 home with a 10 per cent down payment will receive property purchase tax relief of $600, equal to 60 per cent of the tax.

This program is expected to benefit 25,000 home buyers in 1989/90.

Land Tax Deferment Program

Home owners who are 65 years of age or older, widowed, or disabled, can defer the property taxes on their home until they no longer own it or the property ceases to be their principal

residence. Home owners who use this program are charged interest at less than market rates only on their outstanding property taxes. There are approximately 2,700 home owners who have deferred their property taxes through this program.

The coverage of the program has been expanded. The age for eligibility has been lowered from 65 years to 60. This enhancement is expected to increase the number of beneficiaries by as many as 3,000 home owners.

Other Programs

In addition to the programs outlined above, the province provides services and offers protection to both tenants and landlords through the Residential Tenancy Branch. The services offered through this Branch are being expanded and the tenancy or near-tenancy protection will be extended to long-term residents of hotels and lodging houses.

The province will expand the services offered by the Residential Tenancy Branch by giving it the authority to arbitrate security deposit and other monetary disputes up to $3,000. Currently, landlords and tenants who are party to these disputes must go to small claims court.

APPENDIX F

EDUCATION INTO THE TWENTY-FIRST CENTURY

Introduction

The government of British Columbia is committed to developing an education system capable of preparing the youth of today for full participation in the dynamic economy of tomorrow. Funding across the complete education spectrum has been significantly increased during 1989/90 with a number of new initiatives being undertaken.

This appendix outlines 1989/90 education expenditure at the primary, secondary and post-secondary levels, and provides a description of the new initiatives designed to enhance the quality of education in the province.

A Commitment to High Quality Education

The following mission statement for the school system was recently issued by the Ministry of Education:

> *The purpose of the British Columbia school system is to enable learners to develop their individual potential and to acquire the knowledge, skills, and attitudes needed to contribute to a healthy society and a prosperous and sustainable economy.*

This mission statement reflects the view that education is an investment in the future and that the education system should produce citizens who have the ability to think clearly and critically, and be adaptive to change.

As an example of the current success of the school system, the International Test of Science and Mathematics reported in January 1989 that British Columbia students had placed first in science ability and a close third in mathematics out of students tested in 12 jurisdictions. British Columbia students were particularly noted for their problem solving ability, and the Educational Testing Service stated that "these findings are not surprising given the emphasis placed on problem solving and process learning in the elementary school curriculum."

The enhancement of the education system must be an ongoing process if British Columbia students are to maintain this position. In March 1987, the government established a royal commission to study public education and a committee to review post-secondary education. In July 1988, the Sullivan Royal Commission on Education issued the report "A Legacy for Learners" and in October 1988, the Provincial Access Committee presented its report entitled "Access to Advanced Education and Job Training in British Columbia." Implementation of some of the major recommendations of these reports will commence during 1989/90.

Primary and Secondary Education

The Ministry of Education provides overall management of the school system in the province with direct administration provided by locally elected boards of trustees in the province's 75 school districts. There are approximately 500,000 students in over 1,500 schools in the public education system. There are an additional 31,000 students in 224 independent schools.

During 1989/90, Ministry of Education expenditure is expected to be over $2.2 billion. This represents over 16 per cent of total 1989/90 provincial government expenditure and reflects an increase of almost $500 million from the 1986/87 expenditure level.

Table F1

Provincial Government Expenditures on Kindergarten – Grade 12 Education

	Actual 1986/87	Estimate 1989/90
	($ million)	
Public Schools	1,660.8	2,060.4
Independent Schools	28.3	57.1
Other	42.0	106.8
	1,731.1	2,224.3

Four major initiatives have been introduced in recent years to enhance the primary and secondary education system.

Pacific Rim Initiatives Program

In 1987/88, the Pacific Rim Initiatives Program was introduced to help establish closer cultural, educational and economic links between British Columbia and our important Pacific Rim trading partners. During 1988/89, 10 Grade 12 graduates were selected to spend one year of study in an Asia Pacific country and a series of study tours for both teachers and students were organized to China and Japan. The $5.3 million 1989/90 budget for this program will fund scholarships for students who wish to study in a Pacific Rim country, student/teacher exchanges and Pacific Rim curriculum and language programs. Approximately 1,000 students will be studying Japanese or Mandarin in 15 British Columbia school districts during 1989/90 and a Pacific Rim focus has been introduced in several areas of the curriculum.

Computers in the Classroom

In 1988/89, a multi-year funding initiative to bring computers into the classroom was introduced. Funding for this program will continue during 1989/90. The initiative allows students throughout the province to become familiar with computer technology in a hands-on learning environment. During 1988/89, approximately 8,400 computers were purchased for British Columbia classrooms. Over the full term of the program more than 40,000 computers will be placed in schools throughout the province.

Passport to Education

The Passport to Education program which was introduced in 1988 encourages student initiative by allowing secondary students to earn financial credits to apply towards the post-secondary or job training program of their choice. Credits are earned on the basis of academic performance and school/community activities. In 1988/89, program expenditures were $8.4 million allowing almost 55,000 students to receive credits. Another $8.4 million is budgeted in 1989/90.

The Sullivan Royal Commission on Education

In January 1989, the Minister of Education announced major new policy directions for education in British Columbia, which implemented the majority of the recommendations contained in the report of the Sullivan Royal Commission.

Some of the highlights of the new policy direction are as follows.

- A new mandate statement outlining a mission and goals for education has been developed by government in consultation with representatives from a broad range of community and educational groups. It will be used to guide the development of a new *School Act* which will be introduced to the Legislature during the spring of 1989.
- A new Education Advisory Council will be formed to provide ongoing advice to the Ministry of Education and help focus the collective energies of students, teachers, trustees, parents, the community and government on the common objective of providing a quality education for our children.
- A new provincial curriculum structure for Grades 4 to 10 will be phased into schools over the next 10 years, placing greater emphasis on problem solving and creative thinking. An ungraded primary curriculum will focus more attention on the progress of individual students and the development of literacy skills among all students. In an effort to increase the number of students who graduate from secondary schools, new Grade 11 and Grade 12 programs will be developed to provide a choice of pathways leading to graduation. School partnerships with the community will be encouraged.
- A comprehensive, but easily understood, process for evaluating the progress of individual learners will be implemented and the results will be reported to the public. The same type of evaluation process will be used for reporting on the effectiveness and efficiency of the education system.

The provincial government is expecting to provide $1.4 billion in operating funds for the British Columbia school system over the next 10 years to implement the Royal Commission's recommendations. In 1989/90, $43.7 million in new funding will be provided and funding in existing programs will be redirected to develop an ungraded primary curriculum, enhance the core curriculum for Grades 4 to 10, support rural teacher education, improve performance evaluation, establish an Education Advisory Council, enhance Native Indian language and culture programs and increase funding for independent schools.

In addition, $1.5 billion in capital funds will be spent over the next six years to build new schools and improve existing facilities. During 1989/90, $250 million in capital expenditures will be undertaken, more than double the 1988/89 capital funding level.

It is recognized that the substantial funding of education in British Columbia must be viewed in terms of accountability and quality. The Royal Commission noted that it is not enough to simply increase funding without putting mechanisms in place to assure that quality is increasing proportionately to the amount of dollars spent. Accordingly, the implementation plan includes measures to enhance and improve the quality of the system, to determine the effectiveness of these changes, and to ensure that the public is kept informed and involved throughout the process.

Post-Secondary Education

At the post-secondary level there are 44,000 students in three universities and 51,000 students in 18 colleges and training institutes. Distance education programs provide instruction for an additional 1,900 students through the Open Learning Agency.

During 1989/90, the Ministry of Advanced Education and Job Training is expected to spend over $900 million on post-secondary education. This represents almost 7 per cent of total 1989/90 provincial government expenditure and reflects an increase of $240 million from 1986/87 expenditure levels.

Table F2

Provincial Government Expenditures on Post-Secondary Education

	Actual 1986/87	Estimate 1989/90
	($ million)	
Contributions to Post-Secondary Institutions	663.2	862.8
Student Financial Assistance	10.5	50.7
Total Expenditures	673.7	913.5

Three major initiatives have been introduced in recent years to provide easier access to the post-secondary education system and to encourage private sector participation in post-secondary education.

Student Financial Assistance Program

To ensure all British Columbians have equal access to post- secondary education, a comprehensive new Student Financial Assistance Program was introduced in the spring of 1987. Under the program, annual loans of up to $6,200 for a single student and $8,400 for a married student with dependent children are available from the federal and provincial governments. Upon successful completion of a program the provincial government will repay, on behalf of the student, any loan amounts outstanding in excess of $12,000 for a first degree and $16,000 for a second degree providing the student demonstrates a personal commitment through paid or volunteer work.

Over 33,000 students are expected to benefit from the new Student Financial Assistance Program in 1989/90. This represents a 30 per cent increase in the number of students receiving assistance since the program was introduced.

University Matching Fund Program

In 1988/89, a six year $110 million University Matching Fund Program was introduced to promote a broader funding base for universities. The purpose of the program is to encourage private sector donations to the three provincial universities. Eligible donations to universities from businesses, individuals and non-profit societies are matched on a dollar-for-dollar basis by the provincial government. Provincial government funding for the program in 1989/90 will be $20 million, double that provided in 1988/89.

An example of the success of the program is the 1988 IBM donation of $1.8 million to the University of Victoria to assist in the purchase of a new mainframe computer valued at $4.5 million. The IBM donation was matched by the provincial government which meant that the University paid only one-fifth of the computer's actual cost.

Access to Advanced Education

In March 1989, the "Access For All" strategy was announced. The strategy includes a wide range of initiatives to improve access to advanced education and job training, such as:

- expanding the capacity of existing university degree programs by 15,000 spaces within six years;
- establishing joint ventures between colleges and universities to provide third and fourth year university courses in targeted communities including Kelowna, Nanaimo and Kamloops;

- the expansion of first and second year university programs in other colleges and improved program delivery in remote areas;
- approval in principle for the establishment of an independent degree granting institution at Prince George;
- the expansion of literacy and adult basic education programs;
- improved access for special needs groups such as Native Indians and the disabled; and,
- the creation of a council on admissions and transfers to make it easier for students to transfer between programs and institutions.

During 1989/90, $35.3 million has been allocated for implementing the first year of the six year "Access For All" initiative.

Conclusion

Provincial government spending on the education system has increased to over $3.1 billion during 1989/90.

Programs such as the Pacific Rim Initiatives and Computers in the Classroom are providing youth with the tools which are required to build their own future. The Passport to Education Program encourages student initiative and facilitates student access to post-secondary education. The Student Financial Assistance Program assists students who may otherwise not have been able to participate in advanced education. The Matching Funds Program provides innovative links between business and universities.

In 1988, British Columbians were asked for ideas on how the education system could be improved. Their input is reflected in the recommendations of the Royal Commission and Access Committee reports. Implementation of these recommendations will commence in 1989/90.

In this fiscal year we enter the 1990's, the last decade of the 20th century. As outlined in this appendix, the British Columbia government is entering this decade with a sound plan for meeting the education needs of the 21st century.

APPENDIX G

THE NEW SPECIAL FUNDS

The operating transactions of the provincial government are reported in the General Fund. In last year's budget the government established two new special funds outside the General Fund—the Budget Stabilization Fund and the Privatization Benefits Fund. The purpose of this appendix is to provide an update on these two funds.

Budget Stabilization Fund

The Budget Stabilization Fund was established to act as a fiscal "shock absorber". In years of strong revenue growth, revenues would be transferred to the fund. In years of revenue weakness, transfers would be made from the Budget Stabilization Fund to the General Fund to compensate for revenue shortfalls and to enable the government to meet the ongoing cost of health, education and other social services without a significant effect on the General Fund budget balance. During 1987/88 and 1988/89, Lottery Fund Special Account funds were also identified for transfer to the Budget Stabilization Fund.

Table G1 outlines the performance of the Budget Stabilization Fund since its inception. During 1987/88, the Fund received $717.4 million in excess General Fund revenue as well as $25.5 million in lottery funds providing it with a balance of $742.9 million at March 31, 1988.

On April 1, 1988 these funds were loaned to the General Fund. This loan allowed the government to reduce its borrowing from external sources and thus reduce public debt interest payments to third parties. Interest earned on this loan to the General Fund is credited directly to the Budget Stabilization Fund. During 1988/89, these interest earnings are expected to total $74 million and are charged to the General Fund as an expenditure of the Management of Public Funds and Debt vote.

The Budget Stabilization Fund is also expected to receive $538 million in surplus General Fund revenue and $79 million in lottery funds during 1988/89. The balance of the Fund at March 31, 1989 is forecast at $1,433.9 million.

Due to favourable economic conditions during 1987 and 1988 and their impact on provincial government revenue, the balance of the Budget Stabilization Fund will be much higher than originally anticipated at its inception. The Minister of Finance and Corporate Relations, in the *Quarterly Financial Report* for the six months ended September 30, 1988, raised this issue and invited public response as to whether $500 million was a sufficient balance for the Budget Stabilization Fund.

Table G1

Budget Stabilization Fund

	Actual 1987/88	Revised Forecast 1988/89	Estimate 1989/90
		($ millions)	
Opening Balance	—	742.9	1,433.9
Transfer (to) from General Fund	717.4	538.0	(500.0)
Interest Earnings	—	74.0	125.0
Lottery funds transferred from General Fund	25.5	79.0	—
Closing Balance	742.9	1,433.9	1,058.9

A number of submissions were received. Some suggested that the government should increase spending now rather than put excess revenue into the Fund while others suggested that $500 million was not a sufficient balance to provide an adequate financial buffer to meet ongoing social service expenditures during a typical recession.

Having considered these submissions, the provincial government has decided to transfer $500 million from the Budget Stabilization Fund to the General Fund during 1989/90. After this transfer, the Budget Stabilization Fund is still estimated to have a balance of $1,058.9 million by March 31, 1990 as shown in Table G1.

Privatization Benefits Fund

As part of the overall restructuring of government, certain government services have been privatized and others are under consideration for privatization where they can be provided more efficiently by the private sector.

In some cases, the government expected to receive significant non-recurring revenue from asset sales associated with privatization. These one-time proceeds were placed in the Privatization Benefits Fund. Income earned on the Fund balance, however, is credited directly to the General Fund to help meet ongoing operating expenditure requirements.

The Privatization Benefits Fund is now expected to receive $302 million during 1988/89. Major proceeds include the sale of British Columbia Hydro and Power Authority's rail and mainland gas divisions, British Columbia Enterprise Corporation dividends and the sale and lease of highway maintenance assets.

Table G2

Privatization Benefits Fund

	Revised Forecast 1988/89	Estimate 1989/90
	$ millions	
Opening Balance	—	302.0
Privatization Proceeds	302.0	20.0
Closing Balance	302.0	322.0

It is anticipated that the Fund will receive an additional $20 million during 1989/90 from privatization initiatives which are currently underway but not yet completed and lease revenues associated with the 1988/89 privatization of highway maintenance equipment.

The balance of the Fund is therefore estimated at $322 million at March 31, 1990, as shown in Table G2.

APPENDIX H

PRIVATIZATION OF ROAD AND BRIDGE MAINTENANCE

Introduction

On October 23, 1987, the government announced that some road and bridge maintenance activities would be privatized. The decision was based on the argument that highway maintenance activities could be undertaken by the private sector at less cost while providing the same level of service to the public.

Prior to privatization, all road and bridge maintenance, which includes road surface, drainage, bridge, sign, roadside barrier and winter maintenance as well as emergency response activities, was the responsibility of the Ministry of Transportation and Highways. The ministry employed 2,500 persons and supplied the necessary equipment and supplies to ensure that the 43,000 kilometres of highways throughout the province were adequately maintained.

Since the privatization announcement, 28 three-year fixed price contracts have been negotiated for road and bridge maintenance throughout the province. The total value of the contracts over the three-year contract period is almost $752 million.

The purpose of this appendix is to briefly outline the privatization process and to provide estimates of the cost savings to government resulting from this initiative.

Highway Maintenance Privatization Process

Call for Proposals

The first step in the highway maintenance privatization process was to establish contract area boundaries and service standards. Once these were defined, calls for expressions of interest were issued. If a satisfactory agreement could not be reached with an employee group to provide the services, proposal calls were invited from the private sector. Detailed bids from interested parties were evaluated and intensive negotiations were conducted with qualified bidders.

Evaluation of Bids

The provincial government required, among other things, a three-year fixed price contract from bidders and an agreement by the contractor to allow British Columbia Government Employees Union successorship. A contractor's bid was considered if it was less than the government's estimate of the three-year total costs of road and bridge maintenance for the contract area. Estimates of government costs were based on actual 1987/88 costs for services to be privatized and adjusted for inflation over the contract period.

Estimated costs included:

- direct costs such as labour, rent, materials and utilities;
- district and headquarters overhead such as stockkeeping, administration, office supplies and employee benefits; and,
- interest expense pertaining to the financing of equipment, inventory and working capital.

Nature of Bids Received

Most bids had relatively high first-year costs which declined in subsequent years. Bids were "front-end loaded" because most contractors faced considerable start-up costs including the purchase of equipment and inventory and other one-time costs required for the commencement of operations.

Restated Highway Maintenance Program Costs for 1988/89

The *1988/89 Estimates* included $292.26 million for Highway Maintenance. The *1989/90 Estimates*, however, show a restated 1988/89 Highway Maintenance Estimate of $301.92 million. This restatement reflects:

- the inclusion of maintenance costs that were budgeted outside the ministry's Highway Maintenance Estimate. In the *1988/89 Estimates*, the cost of seal coating and stabilization were budgeted under the ministry's Highway Capital Maintenance budget. These services are now part of the contracted services;
- the inclusion of interest costs to finance equipment, inventory and working capital budgeted in Vote 72, Management of the Public Debt. These costs are now paid for by the contractor, but were not part of the 1988/89 Highway Maintenance Estimate;
- the inclusion of salary increases negotiated during 1988/89 but not reflected in the *1988/89 Estimates*. This additional cost is included in the contractor's price for services provided in the 1988/89 fiscal year. This cost increase would have been funded out of the New Programs Vote had maintenance services remained with government; and,
- the front-end loading of the contracts. During 1988/89, the contractor's price for providing highway maintenance services will be higher than if maintenance services had remained with government.

Highway Maintenance Program Costs for 1989/90

The 1989/90 Highway Maintenance Estimate is $328.44 million or $26.52 million higher than the restated 1988/89 estimate. This results from the "front-end loading" of the contracts, salary increases negotiated for 1989/90 and an allowance for general inflation which the ministry would otherwise have provided for in 1989/90 if privatization had not occurred.

Road and Bridge Maintenance Cost Overview

Table H1 provides an overview of the estimated ministry cost of delivering road and bridge maintenance services compared to the costs under privatization. This table also includes an estimate of the indirect benefits and contributions to the Privatization Benefits Fund resulting from privatization.

Direct Savings Over Contract Period

Direct savings are the difference between an estimate of the government's costs of fully providing road and bridge maintenance services and the costs under privatization. Privatization costs are higher in the initial year due to the "front-end loading" of the contracts. The declining costs in years two and three of the contracts, however, indicate that the total direct savings of privatizing highway maintenance over the three-year contract period will be $21.52 million.

Table H1

Estimated Savings and Benefits of Highway Maintenance Privatization

	Restated Estimates 1988/89	Estimates 1989/90	Forecast 1990/91	Forecast 1991/92[3]	Total 1988/89–1991/92
	($ millions)				
Direct Savings					
Estimated Ministry Costs[1]	297.69	322.49	338.59	213.31	1,172.08
Privatization Costs:					
—Ongoing Ministry Costs[2]	193.62	75.73	79.52	50.10	398.97
—Highway Maintenance Contracts[4]	108.30	252.71	246.10	144.48	751.59
Subtotal	301.92	328.44	325.62	194.58	1,150.56
Total Direct Savings	(4.23)	(5.95)	12.97	18.73	21.52
Indirect Benefits					
School Taxes	0.97	2.48	2.60	1.61	7.66
Motor Vehicle Licence Fees	0.23	0.58	0.61	0.38	1.80
Social Service Tax	0.62	1.55	1.55	0.93	4.65
Corporation Income Tax	0.21	0.54	0.57	0.35	1.67
Miscellaneous Benefits	1.18	2.56	2.68	1.65	8.07
Total Indirect Benefits	3.21	7.71	8.01	4.92	23.85
Total Direct and Indirect Benefits	(1.02)	1.76	20.98	23.65	45.37
Revenue to the Privatization Benefits Fund					
Asset Disposition Proceeds	28.29	3.28	0.18	—	31.75
Heavy Equipment Lease Payments	4.00	10.47	9.50	4.88	28.85
Total	32.29	13.75	9.68	4.88	60.60
Total Savings and Benefits to Government	31.27	15.51	30.66	28.53	105.97

[1] Estimated highway maintenance costs if the Ministry of Transportation and Highways continued to provide the service. The 1988/89 estimated costs reflect partial year reallocation of highway maintenance expenditures previously budgeted outside of the Highway Maintenance Program budget. The 1989/90 and subsequent years estimated costs are based on the 1988/89 estimate, assuming full-year reallocations, and inflated at five per cent per annum to reflect the British Columbia Government Employees Union settlement and general inflation.

[2] These costs represent highway maintenance services which continue to be undertaken by the Ministry of Transportation and Highways.

[3] Reflects a partial year only as contracts expire during 1991/92.

[4] These amounts are the contracted cost of privatized highway maintenance services. Estimated ministry costs of providing the same level of service are: $104.07 million (restated estimates 1988/89), $246.76 million (estimates 1989/90), $259.07 million (forecast 1990/91), $163.21 million (forecast 1991/92) and $773.11 million (total 1988/89 — 1991/92).

Indirect Benefits Over Contract Period

Indirect benefits include revenues to the provincial government from privatization that would not have been received if road and bridge maintenance continued under government operation. For example, before privatization the government did not pay non-residential school taxes, motor vehicle licence fees, social service tax and corporation income tax. The contractors are subject to these levies, which are estimated to provide government with $15.78 million in additional revenue over the life of the contracts.

Miscellaneous benefits include highway maintenance privatization costs and savings in other areas of government. These include payroll processing costs, accounting costs, form expenses, gravel revenues and rental adjustments. It is estimated that the government will save $8.07 million from these combined sources.

In total, indirect benefits to the government over the three-year contract period are estimated at $23.85 million.

Contributions to the Privatization Benefits Fund

Contributions to the Privatization Benefits Fund include the proceeds from the disposition of assets such as light equipment, small tools, and inventory ($31.75 million) and the lease revenues for heavy equipment ($28.85 million). The government retains ownership of the heavy equipment and leases the equipment back to the contractors at market rates. It was felt that retaining the heavy equipment, for at least the first contract period, would reduce the government's risk in the event a contractor did not fulfill the terms of the contract. The asset disposition and lease revenues are expected to total $60.60 million over the contract term.

Total Savings and Benefits

Including contributions to the Privatization Benefits Fund, the government's total savings and benefits from the privatization of highway maintenance are estimated to be $105.97 million over the three-year contract term.

Road and Bridge Maintenance After 1991/92

Although the operating savings of privatizing highway maintenance during the first contract term are moderate, savings in the future will increase during the second and succeeding contract terms. This is because individual contractors will have already paid for the costs associated with business start-up and because individual contractors will have improved efficiency levels through experience. In addition, price competition in the awarding of subsequent contracts will be enhanced given the future availability of an established pool of highway maintenance contractors.

APPENDIX I

SUPPLEMENTARY TABLES

Table I 1

General Economic Indicators

	Unit or Base Period	1985	1986	1987	1988
Demographics:					
Population (June 1)	thousands	2,870	2,889	2,926	2,984
Public school enrolment (Sept. 30)	thousands	487	486	491	500
Labour force	thousands	1,420	1,451	1,482	1,514
Employment	thousands	1,220	1,270	1,306	1,358
Unemployment rate	per cent	14.1	12.5	11.9	10.3
Main Economic Indicators:					
Provincial gross domestic product	$ millions	54,445	56,543	61,636	66,250[1]
Capital investment (new and repair)	$ millions	13,560	13,355	15,284	17,258
Retail sales	$ millions	14,304	15,567	17,116	18,595
New automobile sales	$ millions	1,096	1,337	1,491	1,648
Housing starts	dwelling units	17,969	20,687	28,944	30,487
Building permits	$ millions	2,190	2,420	2,906	4,200[1]
Exports	$ millions	12,308	12,707	15,690	17,419
Incomes:					
Personal income	$ millions	46,493	48,338	51,927	55,890[1]
Wages and salaries	$ millions	25,869	26,636	28,525	30,481
Average weekly earnings	$	441.56	444.02	453.42	466.42
Prices:					
Consumer price index, B.C. (urban)	1981 = 100	125.0	128.7	132.5	137.3
Consumer price index, Vancouver	1981 = 100	125.2	129.3	133.3	138.1
Consumer price index, Victoria	Dec. 1984 = 100	102.0	103.9	106.5	110.6
Industrial product price index	1981 = 100	118.6	119.6	122.8	127.9
Commodity price index*	1984 = 100	127.6	127.9	132.5	146.7
Financial Indicators:					
Business incorporations	number	15,581	17,067	18,691	18,703
Business bankruptcies	number	1,331	1,445	1,268	1,169
Shares traded (Vancouver Stock Exchange)	$ millions	2,719	4,485	6,650	3,258
Personal savings deposits at chartered banks	$ millions	16,049	17,364	18,599	20,400[1]
Sector Indicators:					
Manufacturing shipments	$ millions	19,858	22,220	26,115	27,664
Timber scaled	thousand cubic metres	76,868	77,503	90,592	86,807
Lumber production	thousand cubic metres	32,994	31,468	37,456	36,737
Pulp and paper production	thousand tonnes	8,349	8,775	9,603	9,848
Gross value of mineral production	$ millions	3,428	3,218	3,499	3,838[2]
Petroleum and natural gas production	$ millions	1,050	778	732	672[2]
Power generation (net)	million kilowatt hours	59,126	50,759	63,066	60,943
Farm cash receipts	$ millions	1,020	1,069	1,066	1,099
Foreign visitors	thousands	4,165	6,997	4,762	4,878

* The Scotiabank Index converted to a Canadian dollar basis.

[1] Ministry of Finance and Corporate Relations estimate.

[2] Ministry of Energy, Mines and Petroleum Resources estimate.

Table I 2
Comparative Provincial Tax Rates, March 1, 1989

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Provincial personal income tax[1] (per cent of family income)*	7.4	7.1	9.1	8.7	7.4	10.2[2]	8.6	8.1	8.1	8.6
Corporation income (per cent of taxable income)										
General rate/m&p**	14	15/9	15	17	15.5/14.5	5.9	16	15	15	16
Small business rate[3]/ m&p**	9	5/0	10	10	10	3.22	9	10	10	10
Corporation capital (per cent of taxable paid up capital)[4]										
Non-financial corporations[5]	*Nil*	*Nil*	0.5	0.3	0.3	0.48	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	2.0	*Nil*	3.0	3.0	0.8	0.97	2.0	1.5	1.5	2.0
Banks	2.0	*Nil*	3.0	3.0	0.8	0.97	2.0	1.5	1.5	2.0
Insurance premiums (per cent)[6]	3	3	3	3	3	3	3	3	2	4
Gasoline[7]										
Per cent of retail price	22.5	N/A	N/A	N/A	N/A	N/A	20	20	20	22
Cents per litre	7.79	5.0	7.0	8.0	9.3	14.4	9.9	8.2	8.3	9.3
Diesel fuel[7]										
Per cent of retail price	N/A	N/A	N/A	N/A	N/A	N/A	23	21	23	26
Cents per litre	8.23	5.0	7.0	9.9	9.9	12.45	11.2	8.5	8.7	11.5
Retail sales										
General rate (per cent)	6	*Nil*	7	7	8	9	11	10	10	12
Liquor (per cent)[8]	10	*Nil*	10	12	12	9	11	10	37.5	12
Meals (per cent)[9]	*Nil*	*Nil*	*Nil*	7	8	10	11	10	10	12
Accommodation (per cent)	8	5	7	7	5	*Nil*	11	10	10	12
Tobacco (cents per package of 25 cigarettes)[10]	125	100	142	162	124	113	156.5	112.5	117.5	161.5

*Calculated for a wage earner with an income of $40,000 per year, a dependent spouse and two dependent children, using 1989 income tax rates in effect on March 1, 1989.

**Manufacturing and processing rate.

N/A – not applicable.

[1] Alberta, Saskatchewan, Manitoba, Ontario and Prince Edward Island impose surtaxes at varying rates on income above specified levels. Alberta, Saskatchewan, Manitoba and Ontario provide for tax reductions at low income levels. Alberta, Saskatchewan and Manitoba also levy flat rate surtaxes on net or taxable income.

[2] Quebec has its own personal income tax collection system. All other provinces collect personal income tax in conjunction with the Federal Government.

[3] Some provinces have special provisions for newly incorporated small businesses.

[4] British Columbia levies its corporation capital tax only on financial institutions having capital greater than $500 million.

[5] In Manitoba, the rate for corporations having more than $10 million of capital is 0.5 per cent.

[6] In some provinces, including British Columbia, different rates apply to life, sickness and accident insurance premiums. Most provinces, including British Columbia, levy an additional tax of one per cent or less on fire insurance premiums. British Columbia also levies an additional tax of one per cent on motor vehicle insurance. Newfoundland levies sales tax on insurance premium payments.

[7] Tax rates apply to regular unleaded gasoline and to diesel fuel used on highways. British Columbia, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland adjust tax rates periodically, depending on fuel price fluctuations. The Saskatchewan fuel tax is rebated to Saskatchewan residents.

[8] Liquor served in commercial establishments is taxed at 10 per cent in Quebec and Ontario. The Prince Edward Island rate includes a 25 per cent tax under the *Health Tax Act*. The Manitoba tax is seven per cent on beer.

[9] Most provinces have a basic exemption for low priced meals.

[10] In British Columbia, the tax on cigarettes is indexed to reflect changes in the retail price. The rates for Newfoundland, New Brunswick, Ontario and Manitoba include retail sales taxes.

Table 13

The Financing Plan
General Fund and Special Funds

	Actual 1985/86[1]	Actual 1986/87[1]	Actual 1987/88[1]	Revised Forecast 1988/89	Estimate 1989/90
	($ millions)				
Financial Requirements:					
General Fund Revenue	9,097.0	9,408.7	10,240.5	11,564.0	13,487.0
General Fund Expenditure	10,063.5	10,569.4	11,031.4	11,939.0	13,487.0
General Fund Surplus (Deficit)	(966.5)	(1,160.7)	(790.9)	(375.0)	—
Special Funds Balance Increases (Decreases)	—	—	742.9	993.0	(355.0)
Net Receipts (Disbursements) from Financing and Working Capital Transactions	105.7	(561.7)	(160.3)	(221.0)	301.0
Total Financial Requirements	(860.8)	(1,722.4)	(208.3)	397.0	(54.0)
Financial Sources:					
Net Direct Borrowing for Government Purposes	721.2	1,604.8	214.8	(96.0)	(250.0)
Decrease (Increase) in Cash and Temporary Investments	139.6	117.6	(6.5)	(301.0)	304.0
Total Financial Sources	860.8	1,722.4	208.3	(397.0)	54.0
Debt at Year End:					
Government Purposes	3,197.1	4,801.9	5,016.7	4,920.7	4,670.7
Crown Corporation and Agency Purposes	13,689.4	12,520.5	12,298.8	11,787.0	11,900.3
Other Debt and Guarantees	109.6	168.3	192.7	369.8	794.8
Total Debt at Year End	16,996.1	17,490.7	17,508.2	17,077.5	17,365.8

[1] Restated to conform to the *1989/90 Estimates*.

Table I 4

Revenue by Source

	Actual 1985/86	Actual 1986/87	Actual 1987/88	Revised Forecast 1988/89	Estimate 1989/90	Annual Rate of Growth 1985/86 to 1989/90
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	2,073.1	2,248.1	2,790.0	2,990.0	3,215.0	11.6
Corporation income	323.5	280.6	473.4	633.0	744.0	23.1
Social service	1,451.8	1,540.8	1,463.1	1,698.0	1,852.0	6.3
Fuel	420.0	373.4	449.5	455.0	514.0	5.2
Tobacco	188.3	212.0	227.8	280.0	316.0	13.8
Property — business (school purpose)[1]	562.0	478.4	449.3	510.0	535.0	(1.2)
Property — rural area	38.2	35.8	42.7	44.0	51.0	7.5
Property purchase[2]	22.4	24.8	140.1	235.0	248.0	82.4
Corporation capital	94.3	87.2	56.8	15.0	17.0	(34.8)
Insurance premium	25.3	34.7	54.2	82.0	86.0	35.8
Hotel room	27.7	41.5	40.0	45.0	49.0	15.3
Horse racing	7.2	6.7	6.7	6.0	6.0	(4.5)
Total, taxation revenue	5,233.8	5,364.0	6,193.6	6,993.0	7,633.0	9.9
Natural Resource Revenue:						
Petroleum and natural gas:						
Natural gas royalties[3]	53.7	57.2	53.7	68.0	73.0	8.0
Permits and fees	133.6	68.1	92.6	135.0	100.0	(7.0)
Petroleum royalties	86.5	45.0	51.8	40.0	44.0	(15.5)
	273.8	170.3	198.1	243.0	217.0	(5.6)
Minerals	57.2	55.6	53.6	74.0	84.0	10.1
Forests:						
Logging tax	5.1	8.8	31.5	41.0	45.0	72.3
Timber sales	84.2	91.0	350.5	394.0	395.0	47.2
Small business forest enterprise program	29.7	41.4	47.2	123.0	152.2	50.5
Lumber export tax	—	21.3	279.0	5.0	—	—
Other forests revenue	25.2	22.8	36.4	76.0	53.8	20.9
	144.2	185.3	744.6	639.0	646.0	45.5
Water resources	213.9	235.6	215.0	254.0	247.0	3.7
Wildlife Act	10.5	10.8	11.7	13.0	15.0	9.3
	224.4	246.4	226.7	267.0	262.0	3.9
Total, natural resource revenue	699.6	657.6	1,223.0	1,223.0	1,209.0	14.7

[1] For comparative purposes, revenue for 1987/88 and earlier has been restated to include business (school purpose) property tax and Medical Services Plan premiums which are included in General Fund revenue in 1988/89 and 1989/90.

[2] For comparative purposes, the *ad valorem* portion of land registry fees for 1986/87 and earlier has been reclassified as Property Purchase Tax revenue.

[3] Includes British Columbia Petroleum Corporation net income.

[4] Includes public gaming licence fees previously included in lottery revenue.

Table 14

Revenue by Source — *Continued*

	Actual 1985/86	Actual 1986/87	Actual 1987/88	Revised Forecast 1988/89	Estimate 1989/90	Annual Rate of Growth 1985/86 to 1989/90
	($ millions)					(per cent)
Other Revenue:						
Medical Services Plan premiums[1]	355.2	380.8	421.2	580.0	612.0	14.6
Lottery Fund revenue	104.3	159.3	161.2	190.0	200.0	17.7
Motor-vehicle licences and permits	116.3	129.0	136.8	168.0	175.0	10.8
Other fees and licences[4]	144.7	152.9	174.0	194.0	232.0	12.5
Fines and penalties	15.1	17.9	24.4	22.0	28.0	16.7
Interest from investments	84.4	53.2	68.4	113.0	116.0	8.3
Miscellaneous	50.2	53.1	65.6	58.0	63.0	5.8
Total, other revenue	870.2	946.2	1,051.6	1,325.0	1,426.0	13.1
Contributions from Government Enterprises:						
Liquor Distribution Branch	398.4	424.8	425.0	419.0	413.0	0.9
British Columbia Hydro and Power Authority	—	—	—	—	102.0	—
Other	—	22.8	44.8	32.0	27.0	—
Total, contributions from government enterprises	398.4	447.6	469.8	451.0	542.0	8.0
Contributions from the Federal Government:						
Established Programs Financing	1,091.3	1,205.3	1,215.3	1,247.0	1,303.0	4.5
Canada Assistance Plan	595.7	611.3	631.0	660.0	690.0	3.7
Other	138.6	176.7	173.6	203.0	184.0	7.3
Total, contributions from the federal government	1,825.6	1,993.3	2,019.9	2,110.0	2,177.0	4.5
Non-Recurring Revenue	69.4	—	—	—	—	—
Total Revenue	9,097.0	9,408.7	10,957.9	12,102.0	12,987.0	9.3
Transfer (to) from Budget Stabilization Fund	—	—	(717.4)	(538.0)	500.0	—
TOTAL GENERAL FUND REVENUE	9,097.0	9,408.7	10,240.5	11,564.0	13,487.0	10.3

[1] For comparative purposes, revenue for 1987/88 and earlier has been restated to include business (school purpose) property tax and Medical Services Plan premiums which are included in General Fund revenue in 1988/89 and 1989/90.

[2] For comparative purposes, the *ad valorem* portion of land registry fees for 1986/87 and earlier has been reclassified as Property Purchase Tax revenue.

[3] Includes British Columbia Petroleum Corporation net income.

[4] Includes public gaming licence fees previously included in lottery revenue.

Table I 5

Expenditure by Function[1]

	Actual 1985/86	Actual 1986/87	Actual 1987/88	Revised Forecast 1988/89	Estimate 1989/90	Annual Rate of Growth 1985/86 to 1989/90
			($ millions)			(per cent)
Health	3,162.0	3,448.7	3,684.1	4,022.9	4,403.9	8.6
Social Services	1,299.9	1,300.6	1,355.1	1,406.9	1,552.2	4.5
Education	2,309.8	2,419.2	2,582.3	2,901.2	3,192.5	8.4
Protection of persons and property	453.9	463.8	499.4	555.2	599.5	7.2
Natural resources and economic development	663.7	618.1	724.8	880.0	1,107.2	13.6
Transportation and communications	1,156.7	1,121.0	927.7	853.6	1,198.1	0.9
Support for public bodies	234.4	247.2	256.7	290.5	360.5	11.4
Debt costs	344.4	399.6	527.5	539.6	526.4	11.2
Payments to Budget Stabilization Fund	—	—	25.5	153.0	125.0	—
Other	438.6	551.2	448.3	336.1	421.7	(1.0)
TOTAL GENERAL FUND EXPENDITURE	10,063.4	10,569.4	11,031.4	11,939.0	13,487.0	7.6

[1] Expenditure by function has been restated to more closely conform to the presentation used by Statistics Canada.

Table I 6

Net Debt Summary for Years Ending March 31.[1]

	Actual 1986	Actual 1987	Actual 1988	Revised Forecast 1989	Estimate 1990
	($ millions)				
Purposes:					
Provincial Government Direct	3,197.1	4,801.9	5,016.7	4,920.7	4,670.7
Commercial Crown Corporations and Agencies:					
British Columbia Enterprise Corporation	–	44.8	169.1	37.3	–
British Columbia Hydro and Power Authority	8,826.4	8,375.5	8,100.9	7,557.9	7,298.5
British Columbia Petroleum Corporation	30.0	30.0	–	–	–
British Columbia Place	141.0	–	–	–	–
British Columbia Railway Company	319.2	304.2	298.8	298.7	298.5
	9,316.6	8,754.5	8,568.8	7,893.9	7,597.0
Economic Development Crown Corporations and Agencies:					
British Columbia Development Corporation	191.0	64.7	–	–	–
British Columbia Ferry Corporation	86.8	85.9	78.9	72.7	66.5
British Columbia Transit	950.7	1,016.3	1,112.2	1,173.1	1,240.2
Expo 86 Corporation	286.8	98.6	–	–	–
Other	178.9	33.8	10.2	1.6	1.6
	1,694.2	1,299.3	1,201.3	1,247.4	1,308.3
Social and Government Services Crown Corporations and Agencies:					
British Columbia Assessment Authority	3.6	4.5	4.3	4.3	4.8
British Columbia Buildings Corporation	607.0	388.9	398.9	432.1	498.1
British Columbia Educational Institutions Capital Financing Authority	393.7	390.1	379.0	396.6	478.9
British Columbia Regional Hospital Districts Financing Authority	712.3	714.7	748.7	780.9	885.7
British Columbia School Districts Capital Financing Authority	912.5	878.3	869.7	849.7	949.9
Capital Project Certificate of Approval Program[2]	34.9	63.3	90.0	151.4	151.4
British Columbia Systems Corporation	53.5	43.9	47.3	39.9	35.4
	2,717.5	2,483.7	2,537.9	2,654.9	3,004.2
Less Amounts Held as Investments by General and Special Funds	38.9	17.0	9.2	9.2	9.2
Government, Crown Corporation and Agencies Debt Total	16,886.5	17,322.4	17,315.5	16,707.7	16,571.0
Other Debt and Guarantees	109.6	168.3	192.7	369.8	794.8
Total Direct, Fiscal Agency and Guaranteed Debt	**16,996.1**	**17,490.7**	**17,508.2**	**17,077.5**	**17,365.8**

[1] Net debt is after deduction of sinking funds. Government purpose and fiscal agency debt excludes accrued interest, which is reported in the government's accounts as an accounts payable, while guaranteed debt includes accrued interest.

[2] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program, are used for interim financing of capital construction and are eventually converted to long-term debt.